FINAL

# Lekwa Local Municipality

(Registration number MP305)

# Unaudited Annual financial statements for the year ended 30 June 2018

# Lekwa Local Municipality

(Registration number MP305)
Unaudited Annual Financial Statements for the year ended 30 June 2018

## General Information

| | | |
|---|---|---|
| **Nature of business and principal activities** | Providing municipal services and maintaining the best interests of the local community | |
| **Mayoral committee** | | |
| Executive Mayor | Cllr. LBR Dhlamini | |
| Speaker | Cllr. HM Khota | |
| Chief Whip | Cllr. ML Molaba | |
| Member of Mayoral Committee: Technical Services and Planning and Development | Cllr. BP Mollo | |
| Member of Mayoral Committee: Corporate Sevices and Community Services and Safety | Cllr. VT Malinga | |
| Councillors | Cllr. JR De Ville | |
| | Cllr. LBR Dhlamini | |
| | Cllr. PJ Dlamin | |
| | Cllr. JL Jansen van Rensburg | |
| | Cllr. TJ Kambule | |
| | Cllr. TA Khanyile - Resigned December 2017 | |
| | Cllr. HM Khota | |
| | Cllr. JQ Khumalo | |
| | Cllr. MS Khumalo | |
| | Cllr. PC Mahlaba | |
| | Cllr. VT Malinga | |
| | Cllr. VM Mahlangu | |
| | Cllr. FE Nhlapo | |
| | Cllr. MS Mngomezulu | |
| | Cllr. MB Mosikedi | |
| | Cllr. ML Molaba | |
| | Cllr. BP Mollo | |
| | Cllr. B Ndlebe | |
| | Cllr. JW Ngubeni | |
| | Cllr. SM Ngwenya | |
| | Cllr. NL Nkosi | |
| | Cllr. SJ Nkosi | |
| | Cllr. F Sarang | |
| | Cllr. LP Selepe | |
| | Cllr. NS Selepe | |
| | Cllr. ENK Shabangu | |
| | Cllr. MM Sibanyoni | |
| | Cllr. RV Solontsi | |
| | Cllr. XM Tshabalala | |
| | Cllr. JJ Van der Wath - Deceased April 2018 | |
| | Cllr. SM Zacarias | |
| **Accounting Officer** | LB Tshabalala (Contract ended 31 July 2017) | |
| | GP Mhlongo-Ntshangase | |
| **Chief Finance Officer (CFO)** | RA Morris | Resigned October 2017 |
| | T Hlatswayo | Acting Chief Finance Officer - November 2017 - February 2018 |
| | AO Mprah | Seconded Chief Finance Officer - March 2018 - May 2018 |

# General Information

| | |
|---|---|
| **Registered office** | C/O Mbonani Mayisela and Dr Beyers Naudé Street<br>Standerton<br>2430 |
| **Business address** | C/O Mbonani Mayisela and Dr Beyers Naudé Street<br>Standerton<br>2430 |
| **Postal address** | PO Box 66<br>Standerton<br>2430 |
| **Bankers** | First National Bank Limited |
| **Auditor** | Auditor General South Africa |

# Lekwa Local Municipality

(Registration number MP305)
Unaudited Annual Financial Statements for the year ended 30 June 2018

## Index

The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:



| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| WSG | Water Services Infrastructure Grant |

## Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently reviewing and reporting on the municipality's unaudited annual financial statements. The unaudited annual financial statements have been examined by the municipality's external auditor and their report is presented on page 5.

The unaudited annual financial statements set out on pages 5 to 127, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

**GP Mhlongo-Ntshangase**
**Municipal Manager**

# Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2018.

## 1. Review of activities

**Main business and operations**

The municipality is engaged in providing municipal services and maintaining the best interests of the local community.

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 356,199,472 (2017: deficit R 310,489,928).

## 2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R (106,066,929) and that the municipality's total liabilities exceed its assets by R (106,066,929).

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

## 4. Accounting Officers' interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

## 5. Accounting policies

The unaudited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 6. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

| Name | Nationality | Changes |
|---|---|---|
| LB Tshabalala | South African | Contract ended 31 July 2017 |
| GP Mhlongo-Ntshangase | South African | Appointed with effect from 11 August 2017 |

## 7. Corporate governance

**General**

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

# Accounting Officer's Report

**Audit Committee**

The audit committe members for the year ended 30 June 2018 were as follows:

| Position | Name | Date appointed | Date resigned |
|---|---|---|---|
| Chairperson | Mr FT Ngcobo | 2016-12-01 | |
| Members | Mr WN Mgaga | 2016-12-01 | |
| | Mr AC Keyser | 2014-04-25 | 2017-12-01 |
| | Mr N Balkrishen | 2014-04-25 | 2017-12-01 |
| | Mr LTA Gafane | 2018-04-01 | |
| | Mr AK Modise | 2018-04-01 | |

In terms of Section 166 of the Municipal Finance Management Act, Act 56 of 2003, as a parent municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities’ Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality’s audit committees who are not directors of the municipal entity onto the audit committee.

**Internal audit**

The municipality has a fully functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

## 8. Bankers

First National Bank Limited is used for daily operations as well as investing of grant funding

## 9. Auditor

Auditor General South Africa will continue in office for the next financial period.

## 10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

# Lekwa Local Municipality

(Registration number MP305)
Unaudited Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 12 | 27,138,077 | 1,229,343 |
| Inventories | 7 | 67,384,055 | 72,519,514 |
| Receivables from exchange transactions | 8&11 | 105,671,651 | 121,949,441 |
| Receivables from non-exchange transactions | 9&11 | 15,163,668 | 29,857,606 |
| VAT receivable | 10 | 54,215,423 | 20,427,426 |
| | | **269,572,874** | **245,983,330** |
| **Non-Current Assets** | | | |
| Investment property | 3 | 1,824,265 | 1,909,115 |
| Property, plant and equipment | 4 | 1,121,906,079 | 1,163,112,080 |
| Other financial assets | 5 | 25,663,459 | 24,127,381 |
| Receivables from exchange transactions | 8 | 21,692,150 | 21,692,150 |
| | | **1,171,085,953** | **1,210,840,726** |
| **Total Assets** | | **1,440,658,827** | **1,456,824,056** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 15 | 928,513,948 | 694,174,412 |
| Consumer deposits | 17 | 3,029,547 | 3,098,557 |
| Employee benefit obligation | 6 | 3,469,841 | 2,564,773 |
| Unspent conditional grants and receipts | 13 | 22,301,113 | - |
| Provisions | 14 | - | 323,524 |
| | | **957,314,449** | **700,161,266** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 6 | 79,264,045 | 76,669,339 |
| Provisions | 14 | 510,147,262 | 429,860,908 |
| | | **589,411,307** | **506,530,247** |
| **Total Liabilities** | | **1,546,725,756** | **1,206,691,513** |
| **Net Assets** | | **(106,066,929)** | **250,132,543** |
| Accumulated surplus | | (106,066,929) | 250,132,543 |

* See Note 41

# Lekwa Local Municipality

(Registration number MP305)
Unaudited Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Agency services | | - | 24,343,453 |
| Interest received - investment | 22 | 43,379,850 | 37,708,605 |
| Other income | 21 | 1,330,373 | 6,031,953 |
| Rental income | | 1,906,238 | 1,810,624 |
| Service charges | 19 | 343,444,107 | 357,205,646 |
| Inventories reversal | | - | 481 |
| **Total revenue from exchange transactions** | | **390,060,568** | **427,100,762** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 23 | 64,045,601 | 51,824,730 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 24 | 131,652,887 | 134,796,424 |
| FInes, Penalties and Forfeits | | 2,788,890 | 3,590,595 |
| **Total revenue from non-exchange transactions** | | **198,487,378** | **190,211,749** |
| **Total revenue** | 18 | **588,547,946** | **617,312,511** |
| **Expenditure** | | | |
| Employee related costs | 25 | (202,027,588) | (171,908,395) |
| Remuneration of councillors | 26 | (13,313,663) | (12,250,109) |
| Depreciation and amortisation | 27 | (75,719,453) | (81,561,987) |
| Impairment loss/ Reversal of impairments | 28 | (1,904,873) | (25,783,800) |
| Finance costs | 29 | (82,347,382) | (64,213,741) |
| Lease rentals on operating lease | | (18,322,661) | (13,102,075) |
| Debt Impairment | 30 | (90,957,067) | (98,000,457) |
| Bulk purchases | 31 | (352,301,511) | (338,113,194) |
| Contracted services | 32 | (39,954,923) | (35,412,580) |
| Loss on disposal of assets and liabilities | | - | (329,398) |
| Inventories losses/write-downs | | (4,802,338) | - |
| General Expenses | 33 | (63,095,959) | (87,126,703) |
| **Total expenditure** | | **(944,747,418)** | **(927,802,439)** |
| **Deficit for the year** | | **(356,199,472)** | **(310,489,928)** |

* See Note 41

# Lekwa Local Municipality

(Registration number MP305)
Unaudited Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2016** | **560,622,471** | **560,622,471** |
| Changes in net assets | | |
| Surplus for the year | (310,489,928) | (310,489,928) |
| Total changes | (310,489,928) | (310,489,928) |
| **Restated* Balance at 01 July 2017** | **250,132,543** | **250,132,543** |
| Changes in net assets | | |
| Surplus for the year | (356,199,472) | (356,199,472) |
| Total changes | (356,199,472) | (356,199,472) |
| **Balance at 30 June 2018** | **(106,066,929)** | **(106,066,929)** |

Note(s)

* See Note 41

## Cash Flow Statement

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Taxation | | 66,834,491 | 40,391,772 |
| Sale of goods and services | | 277,930,322 | 239,375,822 |
| Grants | | 156,742,890 | 137,918,200 |
| Interest income | | 43,379,850 | 37,707,918 |
| | | 544,887,553 | 455,393,712 |
| **Payments** | | | |
| Employee costs | | (211,861,608) | (220,941,330) |
| Suppliers | | (188,803,676) | (228,553,568) |
| Finance costs | | (82,347,382) | (64,213,741) |
| | | (483,012,666) | (513,708,639) |
| **Net cash flows from operating activities** | 36 | **61,874,887** | **(58,314,927)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (34,430,075) | (40,239,412) |
| Proceeds from sale of property, plant and equipment | 4 | - | 11 |
| Proceeds from sale of financial assets | | (1,536,078) | (1,105,331) |
| **Net cash flows from investing activities** | | **(35,966,153)** | **(41,344,732)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **25,908,734** | **(2,566,423)** |
| Cash and cash equivalents at the beginning of the year | | 1,229,343 | 3,795,766 |
| **Cash and cash equivalents at the end of the year** | 12 | **27,138,077** | **1,229,343** |

* See Note 41

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 454,934,332 | (44,107,532) | **410,826,800** | 343,444,107 | **(67,382,693)** | The Municipality envisaged an increase in revenue as a result of installation of smart meters and correction of service accounts |
| Agency services | 18,470,015 | (18,470,015) | **-** | - | **-** | |
| Rental income | 682,283 | 390,184 | **1,072,467** | 1,906,238 | **833,771** | The budget was understat ed as the Municipality did not want to inflate the revenue projection as it will influence the expenditure projection adversly |
| Other income | 4,895,032 | (2,275,446) | **2,619,586** | 1,330,373 | **(1,289,213)** | Provision was made for VAT recovery as part of the additional revenue to be recouped by the Municipality as well as disposal of land which didn't follow thorugh. |
| Interest received - investment | 33,736,122 | 11,915,576 | **45,651,698** | 43,379,850 | **(2,271,848)** | Variance less than 5% |
| **Total revenue from exchange transactions** | **512,717,784** | **(52,547,233)** | **460,170,551** | **390,060,568** | **(70,109,983)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 69,655,879 | 5,518,632 | **75,174,511** | 64,045,601 | **(11,128,910)** | The Municipality envisaged implementing new SV however there was a significant decline in the valuation roll influenced by the decline in the markert performance |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 97,112,650 | - | **97,112,650** | 131,652,887 | **34,540,237** | The grants includes only revenue realised from operations and does not include grants relating to capital expenditure which the conditions have been met and revenue has been recognised |
| Fines, Penalties and Forfeits | 463,135 | (463,135) | **-** | 2,788,890 | **2,788,890** | The increase was as a result of the Municipality purchasing of a system (roadblock trailer) that assist in the collection of outstanding fines |
| **Total revenue from non-exchange transactions** | **167,231,664** | **5,055,497** | **172,287,161** | **198,487,378** | **26,200,217** | |
| **Total revenue** | **679,949,448** | **(47,491,736)** | **632,457,712** | **588,547,946** | **(43,909,766)** | |
| **Expenditure** | | | | | | |
| Personnel | (174,060,845) | (20,525,584) | **(194,586,429)** | (202,027,588) | **(7,441,159)** | Variance less than 5% |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Remuneration of councillors | (13,865,547) | 2,800,271 | **(11,065,276)** | (13,313,663) | **(2,248,387)** | There was no significance increase in the council remuneration in terms of the Public Office Bears Act |
| Depreciation and amortisation | (87,223,178) | - | **(87,223,178)** | (75,719,453) | **11,503,725** | Due to the number of assets impaired in the 2016-17 including assets that were destroyed/disposed as a result of the vandalisation of equipments in Sakhile Office financial period the depreciation amount has decline |
| Impairment loss/ Reversal of impairments | - | - | **-** | (1,904,873) | **(1,904,873)** | Municipality didn't budget for impairment |
| Finance costs | (30,000,000) | (34,605,708) | **(64,605,708)** | (82,347,382) | **(17,741,674)** | There was a significance in the amount owed to Eskom as a result of the Municipality having cash flow challenges |
| Lease rentals on operating lease | - | - | **-** | (18,322,661) | **(18,322,661)** | This was budgeted included in contracted services |
| Debt Impairment | (67,948,217) | - | **(67,948,217)** | (90,957,067) | **(23,008,850)** | Thepayment rate of consumers was not as anticipated during the bugeting process |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Bulk purchases | (360,820,386) | 34,189,350 | **(326,631,036)** | (352,301,511) | **(25,670,475)** | During the budgeting there was an antiipation that the disputed Water and sanitation billing will be resolved and redue the bulk purchases water billings. |
| Contracted Services | (87,779,297) | 2,955,798 | **(84,823,499)** | (39,954,923) | **44,868,576** | There Municipality reduced the contacted services cost by performing some of the routine task internally |
| General Expenses | (87,426,563) | 65,610,556 | **(21,816,007)** | (63,095,959) | **(41,279,952)** | The general expenses increased due to the increase in routine operations as a result of savings in the cost of contracted services Operating lease rentals included in the contracted services during budgeting |
| Other materials | (11,995,330) | 11,995,330 | **-** | - | **-** | |
| **Total expenditure** | **(921,119,363)** | **62,420,013** | **(858,699,350)** | **(939,945,080)** | **(81,245,730)** | |
| **Operating deficit** | **(241,169,915)** | **14,928,277** | **(226,241,638)** | **(351,397,134)** | **(125,155,496)** | |
| Inventories losses/write-downs | - | - | **-** | (4,802,338) | **(4,802,338)** | The Municipality does not budget for losses/writes-down on inventory held Land held for RDPs being utilised for the conctruction of RDP houses |
| **Deficit before taxation** | **(241,169,915)** | **14,928,277** | **(226,241,638)** | **(356,199,472)** | **(129,957,834)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **(241,169,915)** | **14,928,277** | **(226,241,638)** | **(356,199,472)** | **(129,957,834)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 2,800,841 | - | **2,800,841** | 67,384,055 | **64,583,214** | The municipality didn't include the land held as inventory for the construction of RDP houses. For consumables they went down as the municipality has reduced the level of inventory held due to cash flow challenges |
| Other financial assets | 2,435,769 | - | **2,435,769** | - | **(2,435,769)** | The Municipality other assest decreased due to the cash flow challenges |
| Receivables from non-exchange transactions | 49,649,278 | - | **49,649,278** | 15,163,668 | **(34,485,610)** | Municipality included the non-current portion of other debtors which has since matured to non-current receivables due to non-payment |
| VAT receivable | - | - | **-** | 54,215,423 | **54,215,423** | The municipality didn't budget for VAT receivable |
| Consumer debtors | 104,892,244 | - | **104,892,244** | 105,671,651 | **779,407** | Decline due to the increases in the impairment of oustanding debtors |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 3,631,189 | - | **3,631,189** | 27,138,077 | **23,506,888** | In current year there is an increased unspent grants. These grants are cash backed |
| | **163,409,321** | **-** | **163,409,321** | **269,572,874** | **106,163,553** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 10,139,341 | - | **10,139,341** | 1,824,265 | **(8,315,076)** | During the prior year finalisation of AFSs,some of the property has been removed from investment properties to PPE due to the nature (prior period adjustment) |
| Property, plant and equipment | 1,462,017,521 | - | **1,462,017,521** | 1,121,906,079 | **(340,111,442)** | Due to the number of assets impaired in the 2016-17 including assets that were destroyed/disposed as a result of the vandalisation of equipments in Sakhile Office financial period the PPE amount has decline |
| Other financial assets | 23,062,820 | - | **23,062,820** | 47,355,609 | **24,292,789** | The municipality didn't reclassfy other receivables which has been due for more that 12 months to non-curent assets. |
| | **1,495,219,682** | **-** | **1,495,219,682** | **1,171,085,953** | **(324,133,729)** | |
| **Total Assets** | **1,658,629,003** | **-** | **1,658,629,003** | **1,440,658,827** | **(217,970,176)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables from exchange transactions | 378,169,994 | - | **378,169,994** | 928,513,936 | **550,343,942** | Increaseed as a result of the Municipality not having sufficent cash flow to cover its obligations |
| Consumer deposits | 2,837,462 | - | **2,837,462** | 3,029,547 | **192,085** | |
| Employee benefit obligation | - | - | **-** | 3,469,841 | **3,469,841** | Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting |
| Unspent conditional grants and receipts | - | - | **-** | 22,301,113 | **22,301,113** | The Municipality anticipated to spend all conditional grants at the end of the financial period |
| Provisions | 5,856,130 | - | **5,856,130** | - | **(5,856,130)** | Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting |
| | **386,863,586** | **-** | **386,863,586** | **957,314,437** | **570,450,851** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Non-Current Liabilities** | | | | | | |
| Employee benefit obligation | 89,343,523 | - | **89,343,523** | 79,264,045 | **(10,079,478)** | The total PEMA liability has increased by 4% (or R 2.514 million) since the last acturial valuation. The average liability has increased by 16% since the last acturial valuation. The municipality budgeted figures were estimates as they're not acturies. |
| Provisions | 201,270,905 | - | **201,270,905** | 510,147,262 | **308,876,357** | Provisions have increased due to increased interest charges, for landfill sites due to continued non rehabilitation of sites which have reached their useful life |
| Borrowings | 643,221,683 | - | **643,221,683** | - | **(643,221,683)** | The municipality doesn't have any borrowings as forecatsed during the budgeting process |
| | **933,836,111** | **-** | **933,836,111** | **589,411,307** | **(344,424,804)** | |
| **Total Liabilities** | **1,320,699,697** | **-** | **1,320,699,697** | **1,546,725,744** | **226,026,047** | |
| **Net Assets** | **337,929,306** | **-** | **337,929,306** | **(106,066,917)** | **(443,996,223)** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 337,929,306 | - | **337,929,306** | (106,066,917) | **(443,996,223)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Taxation | 55,028,144 | 696,559 | **55,724,703** | 66,834,491 | **11,109,788** | There was an increase in revenue collection due to government departments paying for rates as a result of the implementation of credit control & debt collection |
| Sale of goods and services | 382,519,471 | (18,572,005) | **363,947,466** | 277,930,322 | **(86,017,144)** | There was a decline in revenue collection due to inadeqaute implemntation of credit control & debt collection |
| Grants | 162,941,000 | - | **162,941,000** | 156,742,890 | **(6,198,110)** | Grants reduced due to MIG allocation being adjusted in the revised DORA allocations. |
| Interest income | 25,319,591 | 8,416,531 | **33,736,122** | 43,379,850 | **9,643,728** | Interest earned on outstanding debtors increased as a result of growth in oustanding debtors |
| Other receipts | 24,510,465 | 196,596,985 | **221,107,450** | - | **(221,107,450)** | |
| | **650,318,671** | **187,138,070** | **837,456,741** | **544,887,553** | **(292,569,188)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Payments** | | | | | | |
| Employee costs & Suppliers | 187,926,392 | 17,725,313 | **205,651,705** | 211,861,608 | **6,209,903** | |
| Suppliers | 366,563,929 | 518,044,537 | **884,608,466** | 188,803,676 | **(695,804,790)** | The expenditure was reduced due to cash flow constraints |
| Finance costs | 30,000,000 | 34,605,708 | **64,605,708** | 82,347 | **(64,523,361)** | Interest for arrears on Eskom account due to cash flow constraints |
| | **584,490,321** | **570,375,558** | **1,154,865,879** | **400,747,631** | **(754,118,248)** | |
| **Net cash flows from operating activities** | **1,234,808,992** | **757,513,628** | **1,992,322,620** | **945,635,184** | **(1,046,687,436)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (65,828,350) | - | **(65,828,350)** | - | **65,828,350** | There was under expenditure in Capital expenditure due to financial constraints as well as slow expenditure on conditional grant expenditure |
| Net increase/(decrease) in cash and cash equivalents | 1,168,980,642 | 757,513,628 | **1,926,494,270** | 945,635,184 | **(980,859,086)** | The expenditure was reduce drastically due to cash flow challenges thus resulting in increase in cash & cash equivalents at year end as well as unspent consitional grants |
| Cash and cash equivalents at the beginning of the year | 3,631,189 | 454,309 | **4,085,498** | 1,229,343 | **(2,856,155)** | |
| **Cash and cash equivalents at the end of the year** | **1,172,611,831** | **757,967,937** | **1,930,579,768** | **946,864,527** | **(983,715,241)** | |

# Accounting Policies

## 1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

These unaudited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited annual financial statements. Significant judgements include:

**Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

**Useful lives of Property, Plant and Equipment**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

**Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

**Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Cost model**

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

| Item | Useful life |
| --- | --- |
| Property - land | indefinite |
| Property - buildings | 50 years |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

### 1.6 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight line | Indefinite |
| Buildings | Straight line | 20 - 50 years |
| Plant and machinery | Straight line | 2 - 15 years |
| Furniture and fixtures | Straight line | 2 - 10 years |
| Motor vehicles | Straight line | 2 - 10 years |
| Office equipment | Straight line | 2 - 10 years |
| IT equipment | Straight line | 2 - 5 years |
| Computer software | Straight line | 1 year |
| Infrastructure | Straight line | 1 - 65 years |
| Community | Straight line | 2 - 50 years |
| Other property, plant and equipment | Straight line | 5 years |
| Workshop equipment | Straight line | 5 years |
| Laboratory equipment | Straight line | 5 years |
| Specialised vehicles | Straight line | 10 years |
| Other specialised equipment | Straight line | 5 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

### 1.6 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

### 1.8 Financial instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

### 1.8 Financial instruments (continued)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.8 Financial instruments (continued)

**Classification**

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Trade receivables from Exchange transactions | Financial asset measured at amortised cost |
| Trade receivables from Non-Exchange transactions | Financial asset measured at amortised cost |
| Investments | Financial asset measured at amortised cost |
| VAT Receivable | Financial asset measured at amortised cost |
| Cash and Cash equivalents | Financial asset measured at fair value |
| Other financial assets | Financial asset measured at amortised cost |

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Payables from Exchange transactions | Financial liability measured at amortised cost |
| Consmer Deposits | Financial liability measured at amortised cost |
| VAT Payable | Financial liability measured at amortised cost |
| Unspent Conditional Grants | Financial liability measured at amortised cost |
| Employee benefit obligations | Financial liability measured at amortised cost |
| Provisions | Financial liability measured at fair value |

**Initial recognition**

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

### 1.8 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Reclassification**

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

**Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

**Impairment and uncollectibility of financial assets**

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

### 1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### 1.8 Financial instruments (continued)

**Derecognition**

**Financial assets**

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

**Financial liabilities**

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

**Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### 1.9 Statutory receivables

**Identification**

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

**Recognition**

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

**Initial measurement**

The municipality initially measures statutory receivables at their transaction amount.

**Subsequent measurement**

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and

**1.9 Statutory receivables (continued)**

- amounts derecognised.

**Accrued interest**

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

**Other charges**

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

**Impairment losses**

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

**Derecognition**

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

**1.9 Statutory receivables (continued)**

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

### 1.11 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation/(Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.12 Impairment of cash-generating assets (continued)

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

**Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

**Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

**Basis for estimates of future cash flows**

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

### 1.12 Impairment of cash-generating assets (continued)

**Composition of estimates of future cash flows**

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

**Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

**Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Impairment of cash-generating assets (continued)

**Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

**1.13 Impairment of non-cash-generating assets (continued)**

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

**Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### 1.13 Impairment of non-cash-generating assets (continued)

**Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

**Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.13 Impairment of non-cash-generating assets (continued)

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### 1.14 Employee benefits (continued)

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

**1.14 Employee benefits (continued)**

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

### 1.14 Employee benefits (continued)

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### 1.14 Employee benefits (continued)

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

**Termination benefits**

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**1.15 Provisions and contingencies (continued)**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;

### 1.15 Provisions and contingencies (continued)

- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

**Levies**

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

### 1.17 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### 1.18 Revenue from non-exchange transactions (continued)

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

**Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

**Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.18 Revenue from non-exchange transactions (continued)

**Services in-kind**

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### 1.19 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.21 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.22 Accounting by principals and agents

**Identification**

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

**Identifying whether an entity is a principal or an agent**

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

**Binding arrangement**

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

### 1.22 Accounting by principals and agents (continued)

**Assessing which entity benefits from the transactions with third parties**

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

**Recognition**

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

### 1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.26 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jul-17 to 30-Jun-18.

The budget for the economic entity includes all the entities approved budgets under its control.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

### 1.28 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its unaudited annual financial statements.

### 1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.30 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act no 89 of 1991.

**2. New standards and interpretations**

# Notes to the Unaudited Annual Financial Statements

### 2. New standards and interpretations (continued)

### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 34: Separate Financial Statements | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 35: Consolidated Financial Statements | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 36: Investments in Associates and Joint Ventures | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 38: Disclosure of Interests in Other Entities | 01 April 2099 | Unlikely there will be a material impact |
| • Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 110: Living and Non-living Resources | 01 April 2020 | Unlikely there will be a material impact |
| • GRAP 110 (as amended 2016): Living and Non-living Resources | 01 April 2020 | Unlikely there will be a material impact |
| • GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 7 (as revised 2010): Investments in Associates | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 8 (as revised 2010): Interests in Joint Ventures | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 20: Related parties | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 32: Service Concession Arrangements: Grantor | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 105: Transfers of functions between entities under common control | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 106 (as amended 2016): Transfers of functions between entities not under common control | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 107: Mergers | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 19: Liabilities to Pay Levies | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 12 (as amended 2016): Inventories | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 27 (as amended 2016): Agriculture | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 31 (as amended 2016): Intangible Assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 103 (as amended 2016): Heritage Assets | 01 April 2018 | Unlikely there will be a material impact |
| • Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities | 01 April 2018 | Unlikely there will be a material impact |

# Notes to the Unaudited Annual Financial Statements

**2. New standards and interpretations (continued)**

**2.2 Standards and interpretations not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 108: Statutory Receivables | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 11: Consolidation – Special purpose entities | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land | 01 April 2019 | Unlikely there will be a material impact |

### 3. Investment property

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 4,242,477 | (2,418,212) | 1,824,265 | 4,242,477 | (2,333,362) | 1,909,115 |

**Reconciliation of investment property - 2018**

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Investment property | 1,909,115 | (84,850) | 1,824,265 |

**Reconciliation of investment property - 2017**

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Investment property | 1,993,965 | (84,850) | 1,909,115 |

**Pledged as security**

There are no Investment property pleged as security for overdraft facilities.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## Notes to the Unaudited Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 141,194,150 | - | 141,194,150 | 141,194,150 | - | 141,194,150 |
| Buildings | 9,451,151 | (2,837,387) | 6,613,764 | 5,879,355 | (2,543,420) | 3,335,935 |
| Plant and machinery | 515,996 | (494,605) | 21,391 | 515,996 | (482,546) | 33,450 |
| Furniture and fixtures | 10,156,368 | (9,513,740) | 642,628 | 9,945,789 | (9,310,811) | 634,978 |
| Motor vehicles | 54,235,282 | (52,642,268) | 1,593,014 | 54,235,282 | (51,195,111) | 3,040,171 |
| IT equipment | 5,068,376 | (3,588,524) | 1,479,852 | 4,767,914 | (3,101,292) | 1,666,622 |
| Work in progress | 127,384,966 | - | 127,384,966 | 97,513,898 | - | 97,513,898 |
| Roads network | 1,393,385,880 | (906,655,888) | 486,729,992 | 1,393,385,880 | (851,315,713) | 542,070,167 |
| Community | 33,529,755 | (3,062,101) | 30,467,654 | 33,529,755 | (2,110,956) | 31,418,799 |
| Electricity network | 317,253,046 | (186,237,229) | 131,015,817 | 317,253,046 | (178,627,700) | 138,625,346 |
| Workshop equipment | 3,009,543 | (2,317,311) | 692,232 | 2,533,373 | (2,207,610) | 325,763 |
| Wastewater network | 242,542,862 | (114,672,952) | 127,869,910 | 242,542,862 | (109,453,851) | 133,089,011 |
| Water network | 162,057,010 | (95,917,381) | 66,139,629 | 162,057,010 | (91,989,190) | 70,067,820 |
| Other property, plant and equipment | 449,798 | (388,718) | 61,080 | 449,798 | (353,828) | 95,970 |
| **Total** | **2,500,234,183** | **(1,378,328,104)** | **1,121,906,079** | **2,465,804,108** | **(1,302,692,028)** | **1,163,112,080** |

**4. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2018**

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Land | 141,194,150 | - | - | 141,194,150 |
| Buildings | 3,335,935 | 3,571,796 | (293,967) | 6,613,764 |
| Plant and machinery | 33,450 | - | (12,059) | 21,391 |
| Furniture and fixtures | 634,978 | 210,579 | (202,929) | 642,628 |
| Motor vehicles | 3,040,171 | - | (1,447,157) | 1,593,014 |
| IT equipment | 1,666,622 | 300,462 | (487,232) | 1,479,852 |
| Work in progress | 97,513,898 | 29,871,068 | - | 127,384,966 |
| Roads network | 542,070,167 | - | (55,340,175) | 486,729,992 |
| Community | 31,418,799 | - | (951,145) | 30,467,654 |
| Electricity network | 138,625,346 | - | (7,609,529) | 131,015,817 |
| Workshop equipment | 325,763 | 476,170 | (109,701) | 692,232 |
| Wastewater network | 133,089,011 | - | (5,219,101) | 127,869,910 |
| Water network | 70,067,820 | - | (3,928,191) | 66,139,629 |
| Other property, plant and equipment | 95,970 | - | (34,890) | 61,080 |
| | **1,163,112,080** | **34,430,075** | **(75,636,076)** | **1,121,906,079** |

### 4. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2017**

| | Opening balance | Additions | Disposals | Transfers | Other changes, movements | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 211,574,150 | - | - | (70,380,000) | - | - | - | 141,194,150 |
| Buildings | 3,629,903 | - | - | - | - | (293,968) | - | 3,335,935 |
| Plant and machinery | (375,336) | - | - | - | 425,365 | (16,579) | - | 33,450 |
| Furniture and fixtures | 738,381 | - | (118,646) | - | 360,433 | (345,190) | - | 634,978 |
| Motor vehicles | 6,109,648 | - | - | - | (2,681,339) | (388,138) | - | 3,040,171 |
| Office equipment | - | 402,467 | (350) | - | (312,580) | (89,537) | - | - |
| IT equipment | 719,324 | 1,292,709 | (16,251) | - | - | (329,160) | - | 1,666,622 |
| Work in progress | 72,783,668 | 38,107,486 | - | (13,377,256) | - | - | - | 97,513,898 |
| Roads network | 624,824,878 | - | - | - | - | (59,614,645) | (23,140,066) | 542,070,167 |
| Community | 22,438,991 | - | - | 9,755,093 | - | (775,285) | - | 31,418,799 |
| Electricity network | 146,234,875 | - | - | - | - | (7,609,529) | - | 138,625,346 |
| Workshop equipment | 134,100 | 263,250 | - | - | - | (71,587) | - | 325,763 |
| Specialised vehicles | - | 173,500 | (194,162) | - | 2,681,340 | (2,660,678) | - | - |
| Wastewater network | 138,407,617 | - | - | - | - | (5,318,606) | - | 133,089,011 |
| Water network | 74,421,404 | - | - | - | (425,365) | (3,928,219) | - | 70,067,820 |
| Other property, plant and equipment | 130,859 | - | - | - | - | (34,889) | - | 95,970 |
| | **1,301,772,462** | **40,239,412** | **(329,409)** | **(74,002,163)** | **47,854** | **(81,476,010)** | **(23,140,066)** | **1,163,112,080** |

**Pledged as security**

There are no Property, plant and equipment pleged as security for overdraft facilities.

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 4. Property, plant and equipment (continued)

**Depreciation rates**

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

| | | |
|---|---|---|
| Land | Straight line | Indefinite |
| Buildings | Straight line | 20 - 50 years |
| Plant and machinery | Straight line | 2 - 15 years |
| Furniture and fixtures | Straight line | 2 - 10 years |
| Motor vehicles | Straight line | 2 - 10 years |
| Office equipment | Straight line | 2 - 10 years |
| IT equipment | Straight line | 2 - 5 years |
| Computer software | Straight line | 1 year |
| Infrastructure | Straight line | 1 - 65 years |
| Community | Straight line | 2 - 50 years |
| Other property, plant and equipment | Straight line | 5 years |
| Workshop equipment | Straight line | 5 years |
| Laboratory equipment | Straight line | 5 years |
| Specialised vehicles | Straight line | 10 years |
| Other specialised equipment | Straight line | 5 years |

**Capitalised expenditure (excluding borrowing costs)**

**Assets subject to finance lease (Net carrying amount)**

| | | |
|---|---|---|
| Leasehold improvements | 127,384,966 | 97,513,898 |

**Reconciliation of Work-in-Progress 2018**

| | Included within Infrastructure | Total |
|---|---|---|
| Opening balance | 97,513,917 | 97,513,917 |
| Additions/capital expenditure | 29,764,671 | 29,764,671 |
| | **127,278,588** | **127,278,588** |

**Reconciliation of Work-in-Progress 2017**

| | Included within Infrastructure | Total |
|---|---|---|
| Opening balance | 72,783,688 | 72,783,688 |
| Additions/capital expenditure | 38,107,485 | 38,107,485 |
| Transferred to completed items | (13,377,256) | (13,377,256) |
| | **97,513,917** | **97,513,917** |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 5. Other financial assets

| | | |
|---|---|---|
| **Residual interest at cost** | | |
| Eskom SOC Ltd<br>The amount held is a deposit paid to Eskom. The deposit bears interest at a linked rate. | 25,663,459 | 24,127,381 |
| **Non-current assets** | | |
| Residual interest at cost | 25,663,459 | 24,127,381 |

### 6. Employee benefit obligations

**Defined benefit plan**

The plan is a post employment medical benefit plan.

**Post retirement medical aid plan**

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or deathin-retirement, the surviving dependants may continue membership of the medical scheme.t

## 6. Employee benefit obligations (continued)

**Components of Health Care Liabilities**

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

**Contributions-based Liability**: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

**Benefits-based Liability:** This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

**Cross-subsidy Liability:** This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

**Past-service and future-service liability**: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This socalled Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

**Accrued Liability:** In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

**Cross-subsidy Liability:** The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer, for example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

**Unfunded Accrued Liability:** This is the difference between the Accrued (or past-service) Liability and the value of any offbalance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

**6. Employee benefit obligations (continued)**

**Long Service Award Liability**

The municipality offers employees Long Service Awards fior every five years of service completed, from ten years of service to forty-five years of service, inclusive.

| Completed Servive (in years) | Long Service Bonuses (% of Annual Salary) | Description |
|---|---|---|
| 5 | 2.0% | 5/250 x annual salary |
| 10 | 4.0% | 10/250 x annual salary |
| 15 | 8.0% | 20/250 x annual salary |
| 20,25,30,35,40,45 | 12.0% | 30/250 x annual salary |

**Note:**
- In the month that each “Completed Service” milestone is reached, the employee is granted a LSA.
- Working days awarded are valued at 1/250th of annual salary per day.

Employees’ LSA are based on basic salary, which is referred to in this report as “salary”.

Comparison of eligible employees

| | **30/06/2017** | **30/06/2018** |
|---|---|---|
| Number of eligible employees | 514 | 494 |
| Average annual salary | R 203,952 | R 223,632 |
| Salary-weighted average age | 44.5 | 45.3 |
| Salary-weighted average past service | 13.0 | 13.8 |

### 6. Employee benefit obligations (continued)

The assumptions which tend to have the greatest impact on the results are:

(i) The general salary inflation rate assumption;
(ii) The discount rate assumption;
(iii) The average retirement age of employees; and
(iv) Assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed general salary inflation rate;
(ii) A 1% increase and decrease in the discount rate;
(iii) A two-year decrease and increase in the assumed average retirement age of employees; and
(iv) A 50% decrease in the assumed withdrawal rates from service.

**Financial Assumptions**

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

**Discount Rate:** GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.40% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.40% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.72%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 29 June 2018.

The liability-weighted average term of the total liability is 5.76 years.

**Salary Inflation Rate:** This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

**General Salary Inflation:** This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the longterm, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 5.04% was obtained from the differential between market yields on index-linked bonds (2.72%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.40%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.40%-0.50%)/(1+2.72%))-1.

Thus, a general salary inflation rate of 6.04% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.23%.

It has been assumed that the next salary increase will take place on 1 July 2019.

**Average Retirement Age:** The normal retirement age of employees is 65. It has been assumed that employees will retire at age 60 on average, which then implicitly allows for expected rates of ill-health and early retirement.

### 6. Employee benefit obligations (continued)

**Withdrawal from Service:** If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

The most recent valuation of the Municipality's unfunded LSA liability was undertaken as at 30 June 2017.

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 6. Employee benefit obligations (continued)

**The amounts recognised in the statement of financial position are as follows:**

| | | |
| --- | --- | --- |
| **Carrying value** | | |
| Present value of the defined benefit obligation-Post employment medical benefit plan | (73,156,346) | (70,642,830) |
| Present value of the defined benefit obligation - Long Service award | (9,577,540) | (8,591,282) |
| | **(82,733,886)** | **(79,234,112)** |

| | | |
| --- | --- | --- |
| Non-current liabilities | (79,264,045) | (76,669,339) |
| Current liabilities | (3,469,841) | (2,564,773) |
| | **(82,733,886)** | **(79,234,112)** |

The fair value of plan assets includes:

**Net expense recognised in the statement of financial performance**

| | | |
| --- | --- | --- |
| Current service cost | 4,136,811 | 5,458,760 |
| Interest cost - Finance Cost | 7,538,481 | 8,217,933 |
| Actuarial (gains) losses | (6,306,230) | (24,660,025) |
| Actual benefits vested | 2,664,416 | (2,445,980) |
| | **8,033,478** | **(13,429,312)** |

**Calculation of actuarial gains and losses**

| | | |
| --- | --- | --- |
| Actuarial (gains) / losses - Post Employment Benefit Plan | (5,908,666) | (19,748,325) |
| Actuarial (gains) / losses - Long Service Awards | (397,564) | (4,911,700) |
| | **(6,306,230)** | **(24,660,025)** |

### 6. Employee benefit obligations (continued)

**Key assumptions used**

Assumptions used at the reporting date:

| | 2018 | 2017 |
|---|---|---|
| Discount rates used | 9.65 % | 9.82 % |
| Proportion of eligible current non-member employees joining the scheme by retirement | 20.00 % | 20.00 % |
| Health care cost inflation rate | 7.44 % | 8.11 % |
| Net discount rate - health care cost inflation | 2.06 % | 1.58 % |
| Maximum subsidy inflation rate | 5.21 % | 5.71 % |
| Net discount rate - maximum subsidy inflation | 4.23 % | 3.89 % |
| Continuation of membership at retirement | 90.00 % | 90.00 % |
| Proportion assumed married at retirement | 90.00 % | 90.00 % |
| Other material actuarial assumptions [provide details] | 60 years | |

**Withdrawal from service (PEMA and LSA)**:

| Age | Females | Males |
|---|---|---|
| 20 | 24 % | 16 % |
| 30 | 18 % | 12 % |
| 40 | 10 % | 8 % |
| 50 | 4 % | 4 % |
| 55 | 2 % | 2 % |

**Sensitivity Analysis on the Unfunded Accrued Liability (R Millions): PEMA**

| Assumption | Change | In-service members | Continuation members | Total | % change |
|---|---|---|---|---|---|
| Central assumptions | | 49.443 | 23.714 | 73.156 | |
| Health care inflation | +1% | 53.713 | 25.385 | 79.098 | 8% |
| | -1% | 43.913 | 22.175 | 66.088 | -10% |
| Discount rate | +1% | 41.961 | 21.896 | 63.857 | -13% |
| Discount rate | -1% | 58.937 | 25.830 | 84.767 | 16% |
| Post-retirement mortality | -1 yr | 50.669 | 24.604 | 75.274 | 3% |
| Average retirement age | -1 yr | 53.344 | 23.714 | 77.057 | 5% |
| Continuation of membership at retirement | -10% | 40.917 | 23.714 | 64.631 | -12% |

The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.
The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 8% higher than that shown.

**Sensitivity Analysis on the Unfunded Accrued Liability (R Millions): LSA**

| Assumption | Change | Liability | % change |
|---|---|---|---|
| Central assumptions | | 9.578 | |
| General salary inflation | +1% | 10.075 | 5% |
| | -1% | 9.120 | -5% |
| Discount rate | +1% | 9.093 | -5% |
| | -1% | 10.113 | 6% |
| Average retirement age | -2yrs | 8.373 | -13% |

### 6. Employee benefit obligations (continued)

| | | | |
|---|---|---|---|
| | +2yrs | 10.742 | 12% |
| Withdrawal rates | -50% | 11.086 | 16% |

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 5% higher than the results shown in Section 6.

**History of Liabilities, Assets and Experience Adjustments: PEMA**

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods.

History of liabilities and assets (R millions)

| **Liability history** | **30/06/2014** | **30/06/2015** | **30/06/2016** | **30/06/2017** | **30/06/2018** |
|---|---|---|---|---|---|
| Accrued liability | 63.125 | 67.927 | 80.426 | 70.643 | 73.156 |
| Fair value of plan asset | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Surplus / (Deficit) | (63.125) | (67.927) | (80.426) | (70.643) | (73.156) |

The table table summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

History of experience adjustments: Gains and Losses (R millions): PEMA]

| **Experience adjustments** | **Year ending 30/06/2014** | **Year ending 30/06/2015** | **Year ending 30/06/2016** | **Year ending 30/06/2017** | **Year ending 30/06/2018** |
|---|---|---|---|---|---|
| Liabilities: (Gain) / Loss | (1.185) | (1.791) | 4.531 | (10.798) | (1.087) |
| Assets: Gain / (Loss) | 0.000 | 0.0004 | 0.000 | 0.000 | 0.000 |

**History of Liabilities, Assets and Experience Adjustments: LSA**

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods.

History of liabilities and assets

| **Liability history** | **30/06/2014** | **30/06/2015** | **30/06/2016** | **30/06/2017** | **30/06/2018** |
|---|---|---|---|---|---|
| Accrued liability | 9,860,835 | 11,560,822 | 12,237,326 | 8,591,282 | 9,577,540 |
| Plan asset | 0 | 0 | 0 | 0 | 0 |
| Surplus / (Deficit) | (9,860,835) | (11,560,822) | (12,237,326) | (8,591,282) | (9,577,540) |

The table below summarises the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

**History of experience adjustments: (Gains) and Losses**:

| | **Year ending 30/06/2014** | **Year ending 30/06/2015** | **Year ending 30/06/2016** | **Year ending 30/06/2017** | **Year ending 30/06/2018** |
|---|---|---|---|---|---|
| Liabilities: (Gain) / Loss | 610,707 | 748,740 | (83,753) | (4,521,829) | 485,387 |
| Assets: Gain / (Loss) | 0 | 0 | 0 | 0 | 0 |

**PEMA Liability Reconciliation**:

| | | |
|---|---|---|
| Opening Accrued Liability | 70,642,830 | 80 426 098 |
| Current-Service Cost | 3,341,135 | 4 286 025 |
| Interest Cost | 6,860,023 | 7 243 623 |
| Contributions (benefits paid) | (1,778,976) | (1 564 591) |

### 6. Employee benefit obligations (continued)

| | | |
|---|---|---|
| **Total Annual Expense** | **8,422,182** | **9 965 057** |
| Actuarial Loss / (Gain) | (5,908,666) | (19 748 325) |
| **Closing Accrued Liability** | **73,156,346** | **70 642 830** |

**LSA Liability Reconciliation:**

| | | |
|---|---|---|
| Opening Accrued Liability | 8,591,282 | 12 237 326 |
| Current-Service Cost | 795,676 | 1 172 735 |
| Interest Cost | 678,458 | 974 310 |
| Contributions (benefits paid) | (885,440) | (881 389) |
| **Total Annual Expense** | **588,694** | **1 265 656** |
| Actuarial Loss / (Gain) | 397,564 | (4 911 700) |
| **Closing Accrued Liability** | **9,577,540** | **8 591 282** |

Current portion of liability (due in the next 12 months) R 1,559,135 and the non-current portion of the liability for 30 June 2019 : R 7,872,766.

### 7. Inventories

| | 2018 | 2017 |
|---|---|---|
| Consumable stores | 1,793,310 | 2,126,432 |
| Water | 5,010 | 13,082 |
| Land held for Sale - RDP | 65,585,735 | 70,380,000 |
| | **67,384,055** | **72,519,514** |

| | | |
|---|---|---|
| Carrying value of inventories carried at fair value less costs to sell | 72,178,320 | 72,519,514 |
| Inventories recognised as an expense during the year | (8,073) | 481 |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 8. Receivables from exchange transactions

| | | |
|---|---|---|
| Sundry Receivables | 35,411,834 | 46,992,604 |
| Other debtors - Cigicell | 1,986,679 | 1,986,679 |
| Consumer debtors - Electricity | 33,680,120 | 47,370,025 |
| Consumer debtors - Water | 21,967,247 | 14,850,649 |
| Consumer debtors - Sewerage | 6,692,632 | 6,510,120 |
| Consumer debtors - Refuse | 4,540,966 | 3,781,936 |
| Consumer debtors - Other | 23,084,323 | 22,149,578 |
| | **127,363,801** | **143,641,591** |

| | | |
|---|---|---|
| Non-current assets | 21,692,150 | 21,692,150 |
| Current assets | 105,671,651 | 121,949,441 |
| | **127,363,801** | **143,641,591** |

**Trade and other receivables pledged as security**

There are no Consumer debtors pleged as security for overdraft facilities.

Please refer to note 11 for detailed consumer debtors disclosure.

**Credit quality of trade and other receivables**

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

**Trade receivables**

| | | |
|---|---|---|
| **Counterparties with external credit rating (Moody's)** | | |
| Baa3 | 127,363,801 | 143,641,591 |

| | | |
|---|---|---|
| **Ageing of Sundry Receivables through exchange transactions** | | |
| Current | - | 9,948,440 |
| 30 Days | - | (29,450) |
| 60 Days | - | (34,895) |
| 90+ Days | 37,398,513 | 40,532,969 |
| | **37,398,513** | **50,417,064** |

**Fair value of trade and other receivables**

| | | |
|---|---|---|
| Trade and other receivables | 127,363,801 | 143,641,591 |

**Trade and other receivables impaired**

As of 30 June 2018, trade and other receivables of R 582,870,455 (2017: R (529,500,107)) were impaired and provided for.

The amount of the provision was R 88,605,640 as of 30 June 2018 (2017: R (105,660,507)).

**Reconciliation of provision for impairment of trade and other receivables**

| | | |
|---|---|---|
| Opening balance | (529,500,107) | (423,839,600) |
| Provision for impairment | (53,370,348) | (105,660,507) |
| | **(582,870,455)** | **(529,500,107)** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 9. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Fines | 1,003,022 | 769,846 |
| Consumer debtors - Rates | 14,160,646 | 29,087,760 |
| | **15,163,668** | **29,857,606** |

**Receivables from non-exchange transactions pledged as security**

There are no Consumer debtors pleged as security for overdraft facilities

Please refer to note 11 for detailed consumer debtors disclosure.

**Fair value of receivables from non-exchange transactions**

| | | |
|---|---|---|
| Other receivables from non-exchange transactions | 15,163,668 | 29,857,606 |

**Receivables from non-exchange transactions impaired**

As of 30 June 2018, other receivables from non-exchange transactions of R - (2017: R (109,320,065)) were impaired and provided for.

The amount of the provision was R - as of 30 June 2018 (2017: R 5,282,604).

The ageing of these loans is as follows:

| | | |
|---|---|---|
| Traffic Fines Impairment | (1,904,873) | (2,643,734) |
| Consumer debtors - Rates | (35,235,289) | 7,926,338 |

**Reconciliation of provision for impairment of receivables from non-exchange transactions**

| | | |
|---|---|---|
| Opening balance | (109,320,065) | (114,602,669) |
| Provision for impairment | (37,140,162) | 5,282,604 |
| | **(146,460,227)** | **(109,320,065)** |

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 28&30).

## 10. VAT receivable

| | | |
|---|---|---|
| VAT | 54,215,423 | 20,427,426 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 11. Consumer debtors disclosure

| | | |
|---|---|---|
| **Gross balances** | | |
| Consumer debtors - Rates | 149,659,527 | 129,351,351 |
| Consumer debtors - Electricity | 101,868,064 | 122,271,648 |
| Consumer debtors - Water | 171,726,891 | 149,573,726 |
| Consumer debtors - Sewerage | 78,475,375 | 72,442,983 |
| Consumer debtors - Refuse | 55,579,571 | 47,774,222 |
| Consumer debtors - Other | 265,185,842 | 232,099,835 |
| | **822,495,270** | **753,513,765** |
| **Less: Allowance for impairment** | | |
| Consumer debtors - Rates | (135,498,881) | (100,263,591) |
| Consumer debtors - Electricity | (68,187,944) | (74,901,623) |
| Consumer debtors - Water | (149,759,644) | (134,723,077) |
| Consumer debtors - Sewerage | (71,782,743) | (65,932,863) |
| Consumer debtors - Refuse | (51,038,605) | (43,992,286) |
| Consumer debtors - Other | (242,101,519) | (209,950,257) |
| | **(718,369,336)** | **(629,763,697)** |
| **Net balance** | | |
| Consumer debtors - Rates | 14,160,646 | 29,087,760 |
| Consumer debtors - Electricity | 33,680,120 | 47,370,025 |
| Consumer debtors - Water | 21,967,247 | 14,850,649 |
| Consumer debtors - Sewerage | 6,692,632 | 6,510,120 |
| Consumer debtors - Refuse | 4,540,966 | 3,781,936 |
| Consumer debtors - Other | 23,084,323 | 22,149,578 |
| | **104,125,934** | **123,750,068** |
| **Included in above is receivables from exchange transactions** | | |
| Consumer debtors - Electricity | 33,680,121 | 47,370,025 |
| Consumer debtors - Water | 21,967,247 | 14,850,649 |
| Consumer debtors - Sewerage | 6,692,632 | 6,510,120 |
| Consumer debtors - Refuse | 4,540,966 | 3,781,936 |
| Consumer debtors - Other | 23,086,225 | 21,845,514 |
| | **89,967,191** | **94,358,244** |
| **Included in above is receivables from non-exchange transactions (taxes and transfers)** | | |
| Consumer debtors - Rates | 14,160,647 | 29,087,760 |
| **Net balance** | **104,127,838** | **123,446,004** |
| **Consumer debtors - Rates** | | |
| Current (0 -30 days) | 4,519,062 | 4,393,427 |
| 31 - 60 days | 1,548,227 | 2,882,696 |
| 61 - 90 days | 2,822,883 | 2,650,607 |
| 91+ days | 140,770,507 | 119,424,621 |
| Allowance for impairment | (135,500,033) | (100,263,591) |
| | **14,160,646** | **29,087,760** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 11. Consumer debtors disclosure (continued)

| | | |
|---|---|---|
| **Consumer debtors - Electricity** | | |
| Current (0 -30 days) | 17,254,050 | 17,080,509 |
| 31 - 60 days | 4,583,326 | 10,818,738 |
| 61 - 90 days | 3,108,998 | 9,771,926 |
| 91+ days | 76,921,690 | 84,600,475 |
| Allowance for impairment | (68,187,944) | (74,901,623) |
| | **33,680,120** | **47,370,025** |
| **Consumer debtors - Water** | | |
| Current (0 -30 days) | 5,003,769 | 5,901,592 |
| 31 - 60 days | 3,846,397 | 4,040,185 |
| 61 - 90 days | 3,452,660 | 3,513,659 |
| 91+ days | 159,424,065 | 136,118,290 |
| Allowance for impairment | (149,759,644) | (134,723,077) |
| | **21,967,247** | **14,850,649** |
| **Consumer debtors - Sewerage** | | |
| Current (0 -30 days) | 2,181,635 | 2,797,747 |
| 31 - 60 days | 1,549,641 | 1,929,258 |
| 61 - 90 days | 1,422,327 | 1,819,237 |
| 91+ days | 73,321,772 | 65,896,740 |
| Allowance for impairment | (71,782,743) | (65,932,862) |
| | **6,692,632** | **6,510,120** |
| **Consumer debtors - Refuse** | | |
| Current (0 -30 days) | 1,425,819 | 1,390,903 |
| 31 - 60 days | 1,086,423 | 1,015,024 |
| 61 - 90 days | 1,012,735 | 963,772 |
| 91+ days | 52,054,594 | 44,404,522 |
| Allowance for impairment | (51,038,605) | (43,992,285) |
| | **4,540,966** | **3,781,936** |
| **Consumer debtors - Other** | | |
| Current (0 -30 days) | 3,156,090 | 7,289,461 |
| 31 - 60 days | 4,931,517 | 5,821,520 |
| 61 - 90 days | 4,504,288 | 6,164,782 |
| 91+ days | 252,593,947 | 212,520,007 |
| Allowance for impairment | (242,101,519) | (209,646,192) |
| | **23,084,323** | **22,149,578** |
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (629,763,697) | (532,029,529) |
| Contributions to allowance | (88,605,639) | (97,734,168) |
| | **(718,369,336)** | **(629,763,697)** |

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 12. Cash and cash equivalents (continued)

| | | |
|---|---|---|
| Cash on hand | 6,344 | 344 |
| Bank balances | 1,159,515 | 63,501 |
| Short-term deposits | 25,972,218 | 1,165,498 |
| | **27,138,077** | **1,229,343** |

**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

| **Credit rating** | | |
|---|---|---|
| Baa3 | 28,153,197 | 1,228,999 |

**Cash and cash equivalents pledged as collateral**

**The municipality had the following bank accounts**

| **Account number / description** | **Bank statement balances** | | | **Cash book balances** | | |
|---|---|---|---|---|---|---|
| | **June30, 2018** | **30 June 2017** | **30 June 2016** | **June 30, 2018** | **30 June 2017** | **30 June 2016** |
| First National Bank - Current Account - 62027040740 | 1,159,515 | 116,994 | 2,525,586 | 1,106,011 | 63,501 | 2,525,586 |
| First National Bank - Call Account - 62055246922 | 918 | 405,724 | 25,833 | 918 | 405,724 | 28,533 |
| First National Bank - Call Account - 62177556598 | 4,616,090 | 194,053 | 1,154,502 | 4,616,090 | 194,053 | 520,079 |
| First National Bank - Call Account - 62510563035 | 516,035 | 520,079 | 32,928 | 516,035 | 520,079 | 32,928 |
| First National Bank - Call Account - 62734191612 | 184,515 | - | - | 184,515 | - | - |
| First National Bank - Call Account - 62734196216 | 19,368,278 | - | - | 19,368,278 | - | - |
| First National Bank - Call Account - 62734188388 | 184,234 | - | - | 184,234 | - | - |
| First National Bank - Call Account - 62734193676 | 963,155 | - | - | 963,155 | - | - |
| First National Bank - Call Account - 62734195276 | 91,839 | - | - | 91,839 | - | - |
| Nedbank - 32 Days Notice Account - 087353759995 | 47,155 | 45,643 | 43,812 | 47,156 | 45,643 | 45,812 |
| **Total** | **27,131,734** | **1,282,493** | **3,782,661** | **27,078,231** | **1,229,000** | **3,152,938** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 13. Unspent conditional grants and receipts

The municipality complied with the conditions attached to the grants received to the extend of revenue recognised. Unspent portions of conditional grants are cash backed.

**Unspent conditional grants and receipts comprises of:**

| | | |
| --- | --- | --- |
| **Unspent conditional grants and receipts** | | |
| Water Services Infrastructure Grant | 22,071,166 | - |
| Intergrated National Electrification Programme | 229,947 | - |
| | **22,301,113** | **-** |

**Movement during the year**

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | - | 191,624 |
| Additions during the year | 60,006,000 | 48,168,000 |
| Income recognition during the year | (37,704,887) | (48,168,000) |
| Prior year unspent retained from equitable share | - | (191,624) |
| | **22,301,113** | **-** |

See note 24 for reconciliation of grants from National/Provincial Government.

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 14. Provisions

**Reconciliation of provisions - 2018**

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Reduction due to re-measurement or settlement without cost to entity | Total |
|---|---|---|---|---|---|---|
| Councillors backpay provision | 323,524 | - | - | - | (323,524) | - |
| Environmental rehabilitation provision | 50,606,609 | 4,774,849 | - | - | - | 55,381,458 |
| The Department of Water and Sanitation (DWS) | 379,254,299 | - | 77,527,178 | (2,015,673) | - | 454,765,804 |
| | **430,184,432** | **4,774,849** | **77,527,178** | **(2,015,673)** | **(323,524)** | **510,147,262** |

**Reconciliation of provisions - 2017**

| | Opening Balance | Additions | Change in discount factor | Total |
|---|---|---|---|---|
| Restructuring | - | 323,524 | - | 323,524 |
| Environmental rehabilitation provision | 37,218,029 | - | 13,388,580 | 50,606,609 |
| The Department of Water and Sanitation (DWS) | 301,864,140 | 77,390,159 | - | 379,254,299 |
| | **339,082,169** | **77,713,683** | **13,388,580** | **430,184,432** |

| | 2018 | 2017 |
|---|---|---|
| Non-current liabilities | 510,147,262 | 429,860,908 |
| Current liabilities | - | 323,524 |
| | **510,147,262** | **430,184,432** |

**Councillors backpay provision**

In the prior financial year a provision for councillor's backpay was raised due to the late receipt of the concurrence by the MEC of COGTA the municipality's adoption of the government gazzete no. 40519 of 2016 "Remuneration of public office-bearers Act (20/1998): Determination of upper limits of salaries', ailowances and benefits of different members or municipal councils"

This back-dated councillor's salaries were paid in August 2017 hence the reversal of teh provision.

**Environmental rehabilitation provision**

The municipality has a present obligation to ensure rehabilitation of the land fill sites used after the economic life of the land fill site has been fully utilised.

Unit Costs:
Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately in the Audit files.

CPI
The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 4.4805%.

### 14. Provisions (continued)

Discount Rate
GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used3.
The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.
• For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used. • For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
• For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

**The Department of Water and Sanitation (DWS)**

The municipality is charged by the Department of Water and Sanitation for water usage. However the municipality is charged for clean water. This is disputed as the municipality abstracts and purifies its own water. Therefore the amount is under dispute as the tariff the municipality is being charged is for clean and not raw water. The municipality is unable to determine the correct tariff for raw water as the Department is unable to provide or assist with the information.

**Leave Provision - Deceased**

The leave payout for Mr. Y Marongo who passed away in 2015/09 has not been paid out to date. Leave Provision was raised for the Leave pay due to Mr. Y Marongo's Estate.

### 15. Payables from exchange transactions

| | | |
|---|---|---|
| Payments received in advanced | 8,497,611 | 18,432,111 |
| Retentions and Guarentees held | 7,768,733 | 6,758,186 |
| Salaries accruals | 38,301,831 | 12,667,363 |
| Accrued leave pay | 16,666,226 | 15,180,482 |
| 13th Cheque Provision | 4,547,713 | 4,663,088 |
| Other accrual | 843,846,362 | 633,865,988 |
| Income received in Advance | 2,824,198 | 2,607,194 |
| Advance payments - consumers | 6,061,274 | - |
| | **928,513,948** | **694,174,412** |

**Fair value of trade and other payables**

| | | |
|---|---|---|
| Trade payables | 909,877,153 | 694,138,017 |

### 16. VAT payable

### 17. Consumer deposits

| | | |
|---|---|---|
| Deposits held from Consumer Debtors | 3,098,557 | 3,098,557 |
| Electricity | (60,743) | - |
| Water | (8,267) | - |
| | **3,029,547** | **3,098,557** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 18. Revenue

| | | |
| --- | --- | --- |
| Service charges | 343,444,107 | 357,205,646 |
| Agency services | - | 24,343,453 |
| Rental income | 1,906,238 | 1,810,624 |
| Other income | 1,330,373 | 6,031,953 |
| Interest received | 43,379,850 | 37,708,605 |
| Property rates | 64,045,601 | 51,824,730 |
| Government grants & subsidies | 131,652,887 | 134,796,424 |
| Fines, Penalties and Forfeits | 2,788,890 | 3,590,595 |
| | **588,547,946** | **617,312,030** |

**The amount included in revenue arising from exchanges of goods or services are as follows:**

| | | |
| --- | --- | --- |
| Service charges | 343,444,107 | 357,205,646 |
| Agency services | - | 24,343,453 |
| Rental income | 1,906,238 | 1,810,624 |
| Other income | 1,330,373 | 6,031,953 |
| Interest received | 43,379,850 | 37,708,605 |
| | **390,060,568** | **427,100,281** |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | | |
| --- | --- | --- |
| **Taxation revenue** | | |
| Property rates | 64,045,601 | 51,824,730 |
| **Transfer revenue** | | |
| Government grants & subsidies | 131,652,887 | 134,796,424 |
| Other Goverment grants | 2,788,890 | 3,590,595 |
| | **198,487,378** | **190,211,749** |

## 19. Service charges

| | | |
| --- | --- | --- |
| Sale of electricity | 245,666,198 | 248,078,840 |
| Sale of water | 58,903,670 | 66,124,688 |
| Sewerage and sanitation charges | 21,956,119 | 27,438,714 |
| Refuse removal | 16,918,120 | 15,563,404 |
| | **343,444,107** | **357,205,646** |

## 20. Other revenue

| | | |
| --- | --- | --- |
| Rental income | 1,906,238 | 1,810,624 |
| Other income | 1,330,373 | 6,031,953 |
| | **3,236,611** | **7,842,577** |

## 21. Other income

| | | |
| --- | --- | --- |
| Building plan charges | 89,507 | 68,816 |
| Cementary fees | 191,171 | 472,146 |
| Clearance certificates | 85,053 | 128,873 |
| Commission received | - | 62,546 |
| Connection and reconnection fees | 353,386 | 668,443 |
| Miscellaneous income | 486,848 | 4,489,859 |
| Rezoning fees | 86,267 | 12,450 |
| Tender deposits received | 38,141 | 128,820 |
| | **1,330,373** | **6,031,953** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 22. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank | 4,669,118 | 2,238,553 |
| Interest charged on trade and other receivables | 38,710,732 | 35,470,052 |
| | **43,379,850** | **37,708,605** |

The amount included in Investment revenue arising from exchange transactions amounted to R 38,710,732.

The amount included in Investment revenue arising from non-exchange transactions amounted to R R 619 761.

### 23. Property rates

**Rates received**

| | | |
|---|---|---|
| Assesment rates | 64,045,601 | 51,824,730 |

**Valuations**

| | | |
|---|---|---|
| Residential Properties | 4,053,411,667 | 4,053,411,667 |
| Business & Commercial Properties | 809,141,494 | 809,141,494 |
| State Owned Properties | 707,587,260 | 707,587,260 |
| Municipal Properties | 510,956,472 | 510,956,472 |
| Farms | 3,764,160,750 | 3,764,160,750 |
| | **9,845,257,643** | **9,845,257,643** |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions..

The new general valuation will be implemented on 01 July 2019.

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 24. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 93,948,000 | 86,239,624 |
| **Capital grants** | | |
| Municipal Infrastructure Grant | 19,293,000 | 38,531,000 |
| Financial Management Grant | 1,700,000 | 1,625,000 |
| Water Services Infrastructure Grant | 7,928,834 | - |
| Expanded Public Works Grant | 1,013,000 | 1,400,800 |
| Intergrated National Electrification Programme | 7,770,053 | 7,000,000 |
| | **37,704,887** | **48,556,800** |
| | **131,652,887** | **134,796,424** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 37,704,887 | 48,168,000 |
| Unconditional grants received | 93,948,000 | 86,239,624 |
| | **131,652,887** | **134,407,624** |

**Equitable Share**

The grant is unconditional and is utilised to fund operational and capital programs of the municipality. In terms of the Constitution, this grant is used to subsidise the provision for based and free services to indigent community members.

**Water Services Infrastructure Grant**

| | | |
|---|---|---|
| Current-year receipts | 30,000,000 | - |
| Conditions met - transferred to revenue | (7,928,834) | - |
| | **22,071,166** | **-** |

Conditions still to be met - remain liabilities (see note 13).

The Water Services Infrastructure grant is to provide specific capital finance for basic municipal water infrastructure micro enterprises and social institutions servicing poor communities.

**Municipal Systems Improvement Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 191,261 |
| Prior year Unspent retained from equitable share | - | (191,261) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 13).

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

**Financial Management Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,700,000 | 1,625,000 |
| Conditions met - transferred to revenue | (1,700,000) | (1,625,000) |

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 24. Government grants and subsidies (continued)

| | | |
| --- | --- | --- |
| | - | - |

Conditions still to be met - remain liabilities (see note 13).

The purpose of the Financial Management Grant (FMG) is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

**Municipal Infrastructure Grant**

| | | |
| --- | --- | --- |
| Current-year receipts | 19,293,000 | 38,531,000 |
| Conditions met - transferred to revenue | (19,293,000) | (38,531,000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 13).

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

**Expanded Public Works Grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 267 |
| Current-year receipts | 1,013,000 | 1,012,000 |
| Conditions met - transferred to revenue | (1,013,000) | (1,012,000) |
| Other | - | (267) |
| | - | - |

Conditions still to be met - remain liabilities (see note 13).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the Expanded Public Works Grant (EPWP) target group and can be measured in person-days of work or full time equivalent jobs.

**Intergrated National Electrification Programme**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 96 |
| Current-year receipts | 8,000,000 | 7,000,000 |
| Conditions met - transferred to revenue | (7,770,053) | (7,000,000) |
| Other | - | (96) |
| | **229,947** | - |

Conditions still to be met - remain liabilities (see note 13).

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Integrated National Electrification Programme (INEP) stood currently, the challenges it faced as well as the challenges specific to municipalities.

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 25. Employee related costs

| | | |
|---|---|---|
| Acting allowances | 1,695,531 | 1,480,233 |
| Basic | 113,682,029 | 111,091,512 |
| Bonus | 8,639,862 | - |
| Contribution Provident Fund | 43,200 | - |
| Current service cost | 3,499,774 | (21,647,245) |
| Current service cost | 1,529,698 | 1,472,692 |
| Defined contribution plans | 24,028,266 | 20,770,506 |
| Housing benefits and allowances | 86,076 | - |
| Leave pay provision charge | 1,800,810 | 5,664,600 |
| Long-service awards | 733,132 | 882,133 |
| Medical aid - company contributions | 9,566,955 | 9,302,718 |
| Other payroll levies | 6,824,155 | 15,750,087 |
| Overtime payments | 16,459,557 | 18,284,645 |
| Travel, motor car, accommodation, subsistence and other allowances | 6,715,391 | 7,958,062 |
| UIF | 917,707 | 898,452 |
| WCA | 328,450 | - |
| | **196,550,593** | **171,908,395** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 1,364,158 | 1,162,192 |
| Allowances | 89,000 | 166,918 |
| Contributions to UIF, Medical and Pension Funds | 27,398 | 219,506 |
| | **1,480,556** | **1,548,616** |

Former municipal manager LB Tshabalala's contract ended on 31 July 2018. Ms GPN Mhlongo-Ntshangase assumed office in August 2018.

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 513,959 | 931,123 |
| Allowances | 56,376 | 234,804 |
| Contributions to UIF, Medical and Pension Funds | 6,441 | 12,832 |
| | **576,776** | **1,178,759** |

Former Chief Financial Officer RA Morris resigned in October 2017. An Acting CFO was appointed for the period November 2017 to February 2018 ( BT Hlatswayo). An acting CFO was seconded from Gert Sibande District Municipality for the period March 2018 to May 2018 ( AO Mprah).

**Remuneration of Executive Manager Coporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 880,732 | 838,252 |
| Car Allowance | - | 8,949 |
| Contributions to UIF, Medical and Pension Funds | 250,793 | 238,625 |
| | **1,131,525** | **-** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 25. Employee related costs (continued)

**Remuneration of Executive Manager Community Services & Safety**

| | | |
|---|---|---|
| Annual Remuneration | 811,636 | 801,720 |
| Allowances | 60,000 | 106,472 |
| Contributions to UIF, Medical and Pension Funds | 140,276 | 138,027 |
| | **1,011,912** | **1,046,219** |

**Remuneration of Executive Manager Technical Services**

| | | |
|---|---|---|
| Annual Remuneration | 1,107,719 | 899,117 |
| Contributions to UIF, Medical and Pension Funds | 61,100 | 57,021 |
| | **1,168,819** | **956,138** |

Former Executive manager  Corporate Services, MA Shai contract ended in May 2018, an acting Executive Manager Technical Services appointed from July 2018 ( S Kuona).

**Remuneration of Executive Manager Development and Planning**

| | | |
|---|---|---|
| Annual Remuneration | 595,001 | 866,220 |
| Allowances | 20,000 | 77,116 |
| Contributions to UIF, Medical and Pension Funds | 56,500 | 159,630 |
| | **671,501** | **1,102,966** |

Former Executive Manager Development and Planning resigned in November 2018, an acting Exective Manager Development and Planning was appointed from November 2017 - May 2018 ( K Mahlangu).

### 26. Remuneration of councillors

| | | |
|---|---|---|
| Executive Major | 870,104 | - |
| Mayoral Committee Members | 1,995,629 | - |
| Speaker | 717,683 | - |
| Councillors | 8,824,269 | 9,367,474 |
| Councillors' pension contribution | 817,745 | 2,804,518 |
| Other payrol levies | 88,233 | 78,117 |
| | **13,313,663** | **12,250,109** |

### 27. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 75,634,603 | 81,477,137 |
| Investment property | 84,850 | 84,850 |
| | **75,719,453** | **81,561,987** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 28. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | - | 23,140,066 |
| Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.] | | |
| Other receivables from non-exchange revenue | 1,904,873 | 2,643,734 |
| The receivable stated as impaired is due to the implementation of the amended IGRAP1, which changed the probability measurement criteria from initial measurement to subsequent measurement. Therefore all traffic fine income are accounted for on the accrual basis, i.e. time when offence occurred, but then the asset is considered for impairment at year end ito GRAP 26. At year end the likelihood of receiving traffic income was assessed to be less than 90% for the year when the fine is issued, therefore the fines' receivable was impaired to state a more accurate recoverable amount to enhance the comparability principal to the framework of the financial statements. | | |
| | **1,904,873** | **25,783,800** |

The main classes of assets affected by impairment losses are:

Other receivables through non-exchange transaction - Traffic fine receivablet

**Impairment loss recognised or reversed (cash-generating assets and cash-generating units)**

The amount of the impairment loss recognised, is as follows:

| | | |
|---|---|---|
| Impairment loss recognised<br>(Per class of asset) | | |
| Other receivables from non-exchange revenue - Traffic fine Receivables | 1,904,873 | 2,643,734 |

### 29. Finance costs

| | | |
|---|---|---|
| Trade and other payables | 77,572,533 | 44,847,612 |
| Interest Cost - LSA, PEMA and Landfill site provision | 4,774,849 | 19,366,129 |
| | **82,347,382** | **64,213,741** |

### 30. Debt impairment

| | | |
|---|---|---|
| Contributions to debt impairment provision | 88,605,640 | 97,734,169 |
| Debts impaired | 2,351,427 | 266,288 |
| | **90,957,067** | **98,000,457** |

### 31. Bulk purchases

| | | |
|---|---|---|
| Electricity | 284,271,053 | 268,970,172 |
| Water | 68,030,458 | 69,143,022 |
| | **352,301,511** | **338,113,194** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 32. Contracted services

| | | |
|---|---|---|
| Fleet Services | 1,291,461 | 874,998 |
| Specialist Services | 35,367,466 | 34,537,582 |
| Other Contractors | 3,295,996 | - |
| | **39,954,923** | **35,412,580** |

### 33. General expenses

| | | |
|---|---|---|
| Advertising | 2,449,610 | 3,380,483 |
| Auditors remuneration | 3,923,727 | 4,146,808 |
| Bank charges | 976,787 | 2,459,756 |
| Bursaries | 13,988 | - |
| Commission paid | 7,992,305 | - |
| Community development and training | - | 377,015 |
| Conferences and seminars | 17,279 | 3,505,000 |
| Consumables | 7,525,291 | 4,234,164 |
| Insurance - Excess | 1,597,087 | 935,241 |
| Discount allowed - Traffic fines | 279,384 | 156,895 |
| Entertainment | 15,752 | - |
| Fuel and oil | 2,160,822 | 5,082,744 |
| Hire | 796,321 | - |
| IT expenses | 3,559,262 | - |
| Integrated Development Planning and Local Economic Development | 227,146 | 1,656,857 |
| Consulting fees | 1,863,401 | 566,510 |
| Repairs and maintenance | 13,570,498 | 43,526,109 |
| Legal Fees | 8,855,451 | 7,571,134 |
| Medical expenses | 50,884 | 33,600 |
| Motor vehicle expenses | 910,800 | 1,111,844 |
| Other expenses | 4,403,199 | 6,832,712 |
| Postage and courier | 119,185 | - |
| Protective clothing | 587,075 | 530,030 |
| Staff welfare | 86,373 | 104,543 |
| Subscriptions and membership fees | 30,064 | - |
| Training | 4,439 | 915,258 |
| Travel | 1,079,829 | - |
| | **63,095,959** | **87,126,703** |

### 34. Auditor's remuneration

| | | |
|---|---|---|
| Fees | 3,923,727 | 4,146,808 |

### 35. Operating deficit

Operating deficit for the year is stated after accounting for the following:

| | | |
|---|---|---|
| **Operating lease charges** | | |
| Motor vehicles | | |
| • Contractual amounts | 18,322,661 | 13,090,615 |
| Equipment | | |
| • Contractual amounts | - | 11,460 |
| | **18,322,661** | **13,102,075** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 35. Operating deficit (continued)

| | | |
|---|---|---|
| Loss on sale of property, plant and equipment | - | (329,398) |
| Impairment on property, plant and equipment | - | 23,140,066 |
| Impairment of other receivables from non-exchange transactions | 1,904,873 | 2,643,734 |
| Depreciation on property, plant and equipment | 75,634,603 | 81,477,137 |
| Depreciation on investment property | 84,850 | 84,850 |
| Employee costs | 215,341,251 | 184,158,504 |

### 36. Cash generated from/(used in) operations

| | | |
|---|---|---|
| Deficit | (356,199,472) | (310,489,928) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 75,719,453 | 81,561,987 |
| Gain on sale of assets and liabilities | - | 329,398 |
| Impairment deficit | 1,904,873 | 25,783,800 |
| Debt impairment | 90,957,067 | 98,000,457 |
| Movements in retirement benefit assets and liabilities | 3,499,774 | (13,429,312) |
| Movements in provisions | 79,962,830 | 91,102,263 |
| Impairment of Property, plant and equipment | - | (23,140,066) |
| **Changes in working capital:** | | |
| Inventories | 5,135,459 | (70,253,536) |
| Receivables from exchange transactions | 16,277,790 | (44,365,828) |
| Consumer debtors impairment | (90,957,067) | (98,000,457) |
| Other receivables from non-exchange transactions | 12,789,065 | (22,280,226) |
| Payables from exchange transactions | 234,339,523 | 221,802,562 |
| VAT | (33,786,511) | 5,345,156 |
| Unspent conditional grants and receipts | 22,301,113 | (191,624) |
| Consumer deposits | (69,010) | (89,573) |
| | **61,874,887** | **(58,314,927)** |

### 37. Financial instruments disclosure

**Categories of financial instruments**

**2018**

**Financial assets**

| | At fair value | At amortised cost | Total |
|---|---|---|---|
| Trade and other receivables from exchange transactions | - | 105,671,651 | 105,671,651 |
| Other receivables from non-exchange transactions | - | 15,163,668 | 15,163,668 |
| Cash and cash equivalents | 27,138,077 | - | 27,138,077 |
| VAT | - | 54,215,423 | 54,215,423 |
| | **27,138,077** | **175,050,742** | **202,188,819** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 928,296,045 | 928,296,045 |
| Consumer deposits | 3,029,547 | 3,029,547 |
| | **931,325,592** | **931,325,592** |

**2017**

**Financial assets**

| | At fair value | At amortised cost | Total |
|---|---|---|---|
| Trade and other receivables from exchange transactions | - | 121,494,441 | 121,494,441 |
| Other receivables from non-exchange transactions | - | 29,857,606 | 29,857,606 |
| Cash and cash equivalents | 1,229,343 | - | 1,229,343 |
| VAT | - | 20,427,426 | 20,427,426 |
| | **1,229,343** | **171,779,473** | **173,008,816** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 694,174,412 | 694,174,412 |
| Consumer Deposits | 3,098,557 | 3,098,557 |
| | **697,272,969** | **697,272,969** |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 38. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 42,675,625 | 20,931,870 |
| | | |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 42,675,625 | 20,931,870 |

**Total commitments**

| | | |
|---|---|---|
| **Total commitments** | | |
| Authorised capital expenditure | 42,675,625 | 20,931,870 |

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

**Operating leases - as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 81,184,029 | 48,451,346 |
| - in second to fifth year inclusive | 613,869 | 65,741,544 |
| | **81,797,898** | **114,192,890** |

| | | |
|---|---|---|
| The total future minimum sublease payment expected to be received under non-cancellable contracts | 107,256,000 | 114,192,890 |

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 39. Contingencies

The Municipality has the following Legal cases pending which could result in possible outflow of economic resources.

| No | Description / citation of parties | Nature or details of case | Citation @ Court | Amount | Currect Status |
|---|---|---|---|---|---|
| 1 | Lekwa Local Municipality // SALGBC, J Mashika N.O & M.X Nkonyane Case: JR 1069/14 | Application by Municipality for an order reviewing and setting a settlement agreement entered into between the Municipality (represented by Marongo) and Nkonyane. The settlement was not authorised. | Lekwa Local Municipality // SALGBC, J Mashika N.O & M.X Nkonyane Case: JR 1069/14 | R 1 694 149 | We confirm that the matter has become opposed, Nkonyane has filed her answering affidavit and we have also filed our replying affidavit. We are now preparing your heads of argument which will be filed in court soon in order to enable the Registrar to allocate this matter for hearing.<br><br>Matter went to court and the court referred it back for arbitration. The arbitration date came and the municipality did not make it to the sitting. The employee party has not applied again for the new date for arbitration. |
| 2 | Lethusang Michael Mothobi// Moshoantle John Moboea | Summons were issued and served at the municipality in 2015. No action was taken, plaintiff applied for Default Judgement in October 2017. Default judgement was granted against the respondents (Municipality and Mr Maboea-Driver) subsequently a warrant of execution against property was issued. The sheriff attached assets belonging to both respondents. | Lethusang Michael Mothobi// Moshoantle John MoboeaCase Number: 1541/2015 | R 84 127.52 plus interest and cost of suit | The matter is going back to court. We filed the following applications:<br><br>1. A condonation application for rescission as we are out of time to enable the respondent to state their case in court.<br>2. Requested an interdict against the sheriff.<br>The matter is still pending. |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
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**39. Contingencies (continued)**

| | | | | | |
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| 3 | Hayes Matkovich Development (Pty) Ltd // Lekwa Local Municipality. Case no. 34401/12 | Claim for damages arising from breach of the 2011 land sale and development agreement, being alleged proceeds of the sale of stands, alternatively an amount already incurred by Hayes under the 2008 agreement (before cancelation thereof) and the wasted costs incurred under the 2011 agreement. | Hayes Matkovich Development (Pty) Ltd // Lekwa Local Municipality. Case no. 34401/12 | R 65 756 794 | Judgment was handed down on 17 September 2015 in terms of which Lekwa was held to be liable to Hayes Matkovich for damages arising from termination of the agreement. We have filed an application for leave to appeal. The Constitutional Court dismissed our appeal with cost. The municipality, it is advisable, should negotiate with the plaintiff on the quantum for settlement. The municipality is exploring ways of settling with the assistance of the Council Valuer. A meeting was held in December 2017, the valuer is looking at documents presented. The legal team will convene as soon as the valuer has a report on the way forward. |

**39. Contingencies (continued)**

| | | | | | |
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| 4 | Silinda Mokoena // Lekwa Local Municipality | The Municipality successfully applied for rescission of judgment obtained by Silinda Mokoena against it, for debatement and payment of fees. The Municipality was awarded legal costs arising from the rescission application. | Silinda Mokoena // Lekwa Local Municipality | R 17 414 183 | We confirm that Mr Mokoena has defaulted on his promises to make payment of the outstanding balance of R304 657.54 and has only made sporadic payments. Our attorney of record to submit an application for judgment which has been prepared in anticipation of Silinda Mokoena and Associates failing to make regular payments. |
| 5 | Lekwa Municipality // SAWMU OBO Nkonde DE | Nkonde was dismissed owing to the disciplinary hearing (charges of misconduct having been preferred against him). He referred a dispute of unfair dismissal to the Bargaining Council and the commissioner ordered that he be reinstated. Lekwa is challenging the award. | Lekwa Municipality // Nkonde & Others | R204 000.00 | Review application has been filed and we await record from SALGBC and thereafter allocation for hearing date. The matter sat in July. The employee party alleged that the municipality failed to file in time. The municipality has been afforded time to produce proof that it complied with days. |

**39. Contingencies (continued)**

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| 6 | Lekwa // Makgaji Printing & Projects | A dispute arose between Lekwa and Makgaji regarding the collection of revenue from Smart Electricity Meters. Lekwa is claiming the revenue from Makgaji and an amendment of the SLA is sought | Not applicable | | Makgaji wrote to Lekwa seeking possible settlement of the matter. After consultation with the Chartered Accountant, Arbitration proceedings may follow if the matter is not settled. Arbitration documents drafted, we are awaiting confirmation from the association on the availability of a panelist.<br><br>Parties attended the pre-arbitration meeting on the 05 October 2017 and 17 November 2017. The sitting took place on the 20 November 2017. The matter was postponed to 17, 18 and 19 January 2018 to allow for the discovery of certain documents.<br><br>The hearing sat on the 17 January 2018, the arbitration process did not proceed. The documents discovered by Makgaji were found to be incorrect and not useful for the proceedings. |

## Notes to the Unaudited Annual Financial Statements

Figures in Rand 2018 2017

**39. Contingencies (continued)**

| | | | | | |
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| 7 | 1. Astral Operations Limited//Eskom Holdings//MEC Co-Operative Governance & Traditional Affairs Mpumalanga//Lekwa Local Municipality | Urgent interdict by the local companies to force the municipality and Eskom to resolve the impasse subsisting between them.<br><br>The applicants approached the High Court in Johannesburg with an urgent application under case no. 0990/2017, which was opposed on the 19 January 2017. Another application was also filed by the very same applicant under the Pretoria High Court under Case No. 4545/2017 were Meadow feeds was now joined in the proceedings. In short applicants are seeking an interdict and requesting the court to stop the first respondent from implementing its decision to cut off bulk supply of electricity. Further to the relief sought, they are requesting the court to declare the decision unconstitutional and invalid. Further that the failure by Lekwa to pay Eskom be declared unconstitutional and invalid until such time that the municipality pay off the debt and arrears owed to Eskom. Further that the applicants be authorized by the court to | Case no. 0990/2017 4545/2017 | Astral Operations Limited//Eskom Holdings//MEC Co-Operative Governance & Traditional Affairs Mpumalanga//Lekwa Local Municipality | The matter sat on the 21 February 2017. The Court made an interim order pending the finalization of the matter. The matter is continued on the 2-5 May 2017.<br><br>The order made is to the effect that the applicants are to pay their electricity bill into the trust account of the attorney of record for the municipality which amount/s will then be paid over to Eskom.<br><br>During the May sitting parties presented their arguments and on the third day the Judge requested parties to strongly consider alternative ways of settling the matter. Negotiations ensued that led to a draft settlement proposal. Unfortunately the two parties (Astral and Eskom) renegotiated the draft and a completely new order with new terms other than those we agreed to was forwarded to the Judge for endorsement. We held meetings with all parties and the Judge. The advise by the judge was that the normal rescission process be followed to recall the order issued. A meeting was held in August |

**39. Contingencies (continued)**

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| | | discharge their obligations to lekwa directly to Eskom and furnish proof of payments to lekwa.<br><br>They also seek an order which will regulate how the municipality will pay its month to month obligations to Eskom.<br><br>The applicants approached, on an urgent basis and by way of notice of motion, the High Court in Pretoria under Case no. 2559/2017<br><br>The municipality is cited as the first respondent in this matter and Eskom as the Second respondent. Applicants are requesting an urgent interdict from the court directing that the first and second respondents negotiate and conclude a written and signed payment agreement in relation to the amount overdue and owing to Eskom for the supply of bulk electricity<br>The applicants further requested that in the event that the municipality fails to comply with the requested payment plan then the second respondent shall be obliged to | | | with the Deputy Judge President to discuss the filing process as the matter is treated as semi urgent. The matter sat in March 2017. Parties agreed. with the assistance of the DJP, on filing dates.<br><br>The municipality directed a letter to the attorney of record instructing the attorney to withdraw the rescission application. That means the unlawful order will continue to apply as if it was reached by agreement. The arrangement will remain until the municipality brings a review application to set it aside.<br><br>The sat matter on the 21 February 2017. A second interim order was reached pending the finalization of the Astral Operations / Meadow Feeds matter.<br><br>Cofco is no longer a participant in the matter, they are still bound by the interim order until the municipality brings a review application citing plausible and acceptable recourse. |

### 39. Contingencies (continued)

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| | | the first respondent 180 days notice to terminate services. | | | |

Figures in Rand 2018 2017

**39. Contingencies (continued)**

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| 8 | 2. Cofco South Africa//Standerton Oil Mills// Lekwa Local Municipality//Eskom Holdings SOC//MEC co-operative Governance Mpumalanga | The applicants approached the High Court in Johannesburg with an urgent application under case no. 0990/2017, which was opposed on the 19 January 2017. Another application was also filed by the very same applicant under the Pretoria High Court under Case No. 4545/2017 were Meadow feeds was now joined in the proceedings. In short applicants are seeking an interdict and requesting the court to stop the first respondent from implementing its decision to cut off bulk supply of electricity. Further to the relief sought, they are requesting the court to declare the decision unconstitutional and invalid. Further that the failure by Lekwa to pay Eskom be declared unconstitutional and invalid until such time that the municipality pay off the debt and arrears owed to Eskom. Further that the applicants be authorized by the court to discharge their obligations to lekwa directly to Eskom and furnish proof of payments to lekwa.<br><br>They also seek an order which will | Case No. 2559/2017 | Cofco South Africa//Standerton Oil Mills// Lekwa Local Municipality//Eskom Holdings SOC//MEC co-operative Governance Mpumalanga | The matter sat on the 21 February 2017. The Court made an interim order pending the finalization of the matter. The matter is continued on the 2-5 May 2017.<br><br>The order made is to the effect that the applicants are to pay their electricity bill into the trust account of the attorney of record for the municipality which amount/s will then be paid over to Eskom.<br><br>During the May sitting parties presented their arguments and on the third day the Judge requested parties to strongly consider alternative ways of settling the matter. Negotiations ensued that led to a draft settlement proposal. Unfortunately the two parties (Astral and Eskom) renegotiated the draft and a completely new order with new terms other than those we agreed to was forwarded to the Judge for endorsement. We held meetings with all parties and the Judge. The advise by the judge was that the normal rescission process be followed to recall the order issued. A meeting was held in August |

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## Notes to the Unaudited Annual Financial Statements

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**39. Contingencies (continued)**

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| | | regulate how the municipality will pay its month to month obligations to Eskom.<br><br>The applicants approached, on an urgent basis and by way of notice of motion, the High Court in Pretoria under Case no. 2559/2017<br><br>The municipality is cited as the first respondent in this matter and Eskom as the Second respondent. Applicants are requesting an urgent interdict from the court directing that the first and second respondents negotiate and conclude a written and signed payment agreement in relation to the amount overdue and owing to Eskom for the supply of bulk electricity<br>The applicants further requested that in the event that the municipality fails to comply with the requested payment plan then the second respondent shall be obliged to the first respondent 180 days notice to terminate services. | | | with the Deputy Judge President to discuss the filing process as the matter is treated as semi urgent. The matter sat in March 2017. Parties agreed. with the assistance of the DJP, on filing dates.<br><br>The municipality directed a letter to the attorney of record instructing the attorney to withdraw the rescission application. That means the unlawful order will continue to apply as if it was reached by agreement. The arrangement will remain until the municipality brings a review application to set it aside.<br><br>The sat matter on the 21 February 2017. A second interim order was reached pending the finalization of the Astral Operations / Meadow Feeds matter.<br><br>Cofco is no longer a participant in the matter, they are still bound by the interim order until the municipality brings a review application citing plausible and acceptable recourse. |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
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**39. Contingencies (continued)**

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| 10 | Phumi Trading JV Masallo Zwane Construction//Lekwa | The Municipality is being sued by the Plaintiff (contractor) who was appointed to upgrade roads claiming that it was not paid complete price for work done, however the Municipality alleges that it paid total amount. | Phumi Trading JV Masallo Zwane Constrution // Lekwa<br><br>Case NO: 11741/2012 | R 2 430 00.00 | Opponents confirmed that they are proceeding with the application for the trial date.<br><br>A pre-trial meeting was held in July. The municipality is considering supplementing the plea.<br><br>The file with all the details of the project cannot be located. We have minimal chance of success without the file. |
| 11 | HC Schoeman HC // Lekwa | 1. The Plaintiffs are suing the municipality for a fire that started on their farm. They allege that the fire was caused by an electrical conductor belonging to the municipality.<br><br>2. This is a test case as there are a number of Plaintiffs who are awaiting the outcome of this matter so that they can also decide whether or not to proceed with the action against the municipality. | HC Schoeman // Lekwa Local LM.<br><br>Case NO: 45910/2009 | R 1 000 000.00 | 1. Nothing was done so far and we believe that the Plaintiff's wants to abandon the matter and continue on the other 12 matters. |
| 12 | Roadspan Surfaces (Pty) Ltd | Non-payment for services/ goods rendered. | Roadspan Surfaces (Pty) Ltd/ Lekwa Local Municipality | To be confirmed with attorneys | The plaintiff has abandoned the claim. |

**39. Contingencies (continued)**

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| 13 | Lekwa Municipality and Sky Village Properties CC RE: Development of a new portion of the Remainder of Portion 2 of the Farm Grootverlangen<br><br>No 409: Development of a commercial node inter alia consisting of a supermarket, hardware store, feature restaurant, satellite shops and filling station. | 1. Drafting and concluding of Deed of Sale<br>2. Sub-division of property.<br>3. Sub-division and incorporation of land in Standerton Town / registration of new town plan<br>4. Transfer of properties to Developer | None | Estimated at R 200 mil + | The Purchaser has lodged the application documents to procure the land use change of the property. The sale documents were signed, monies due to the municipality as proceeds of the sale is kept in the trust fund of the transferring attorneys |
| 14 | Disebo Lena Nkosi // Lekwa Municipality | Damages claim against the Municipality for irregular and/or fraudulent transfer of property | Case 1577/2014 | R 194 254.00 | Judgment granted against Lekwa Municipality for being in default and not responding to summons. New Application for Rescission of Judgment was brought by us. Plaintiff/Respondent entered into an irregular proceeding. We have made an Application to court to set aside the Plaintiff / Respondent's opposing pleadings. |

**39. Contingencies (continued)**

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| 15 | Johann Loius Jansen Van Rensburg// Lekwa Local Municipality | The plaintiff took the municipality to court for allegedly failing to give information in line with PAIA. | Case No. 564/2017 | Not Applicable | The matter has been referred to the regional court in Evander. The initial position was that the municipality will not defend the matter but hand out the information requested. It became apparent after discussing with BTO that the information requested is private and classified. The municipality is defending the matter. Another option of requesting permission to disclose the information is also being explored. |
| 16 | Sibonga Intuthuko Construction CC // Lekwa Municipality | Claim against the Municipality for the release of the 5% retention money. Contract no: MIG03/07 Upgrading of water network in Meyerville PH 2 | Case 1651/2015 | R 148 952,00 without interest | Court date to be allocated |
| 17 | Telkom/ Lekwa Local Municipality | Telkom sued the municipality for damages. Telkom alleges that the damage to their cables was inflicted by municipal employees whilst discharging their duties. | Telkom/ Lekwa Local Municipality Case No. 1548/2014 | R 38 062.90 Plus interest and cost of the law suit | Attorneys of record instructed to negotiate settlement of the matter given the cost of legal representation. The amount claimed is very nominal and as such really renders it futile to keep defending this matter when we will at the end face a bill on legal costs way above the principal amount sought. |

## Notes to the Unaudited Annual Financial Statements

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**39. Contingencies (continued)**

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| 18 | Pheela Abraham Motaung & Others/ Lekwa Local Municipality | The plaintiff is suing for damages as result of alleged negligence on the part of the municipality. The alleged fluctuation of electrity current or voltage caused the plaintiff's house to burn down and as a result of that the plaintiff suffured losses. | Pheela Abraham Motaung/ Lekwa Local Municipality Case No. 47901/2012 | R 750 000.00 plus interest and cost of the lawsuit | The municipality successfully secured an order to file documents late. The attorneys of record have also applied to court to have the matter struck off for lack of merits and evidence. |
| 19 | Nomthandazo Emmah Msibi, Matthew Bhuti Dlamini// Lekwa Local Municipality | The applicant referred the municipality to the Equality Court for alleged unfair discrimination. The applicant alleges that the municipality denied her basic services and no good explanation has been given. | E 2/ 20017 | Not Applicable | The matter sat on the 9 September 2017. The municipal Manager is expected to appear and show cause why the conduct of the municipality should not be labeled as unfair discrimination. The court ruled in favor of applicant, the municipality was ordered to avail services to the applicant. |
| 20 | Thulane Karabo Shongwe/ Lekwa Local Municipality | The plaintiff issued summons against the municipality for damages alleging negligence on the part of the municipality. Plaintiff’s child was electrocuted in one of the mini electrical substations. The substation, belonging to the municipality, is said to have been left open and unattended. | Thobile Shongwe obo Thulani K Shongwe// Lekwa Local Municipality | R 1 750 000.00 plus interest and cost of suit. | The municipality is opposing the matter. Our opposing documents were served and filed. We filed further a notice in terms of Rule 23(1) – Exception-plea vague and embarrassing. The said notice is also served and filed with the court. |

**39. Contingencies (continued)**

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| 21 | Department of Water and Sanitation/ Lekwa Local Municipality | The Department is suing the municipality for services rendered. The municipality draws unpurified water from the Grootdrai dam at a fee. The municipality allegedly failed to efffect payment/s due in line with the agreement in place | Not applicable | R 287 520 917.78 | The municipality has not appointed attorneys yet. We are still busy with the IGR process to try and see if the matter cannot be resolved amicably between the parties. The representatives of the department cited in one of our meetings that they have already drafted summonses in this regard. As soon as we receive the said summons we will then proceed to appoint an attorney to defend as we believe we are not indebted to the Department in that tune.<br><br>It looks like the suit has been abandoned following engagements with the department and the two companies. Corporate Services will insist on a formal withdrawal notice, same if available to be presented in the next report. |

**39. Contingencies (continued)**

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| 22 | Lekwa Local Municipality// El Gondor | The applicant brought and urgent application against the municipality. The reliefs sought were as follows<br>1. Interdict against the municipality stopping the municipality from engaging the services of another security company pending the finalisation of the matter.<br>2. That a month to month contract and or arrangement alleged to be in place continue until such time that the municipality has ameliorated its debt towards the applicant.<br>3. Cost of the suit.: | Lekwa Local Municipality// El Gondor<br>Case Number: 2657/2017 | R 17 558 033.00 | The matter sat before the judge on the 14 November 2017. The matter was struck of the roll for lack of urgency. If the applicant intends to proceed with the lawsuit they should do in the normal action court.<br>The company issued the necessary notices to proceed by way of action. The legal team will act as soon as the summons is issued. |
| 23 | Bothma Botho Transport (Pty) Ltd | The plaintiff issued summons at the regional court for non payment. The plaintiff claims to have over-paid the municipality for services rendered by the municipality | Bothma Batho Pty Ltd// Lekwa Local Municipality<br><br>Case No. MRCC 73/2017 | R 252103.12 including interest at 10.5 % from August 20114 | The municipality is performing its investigations, the notice of proceedings was not issued/ was not forwarded to the relevant section to allow investigations.<br><br>The matter was settled, BTO eventually paid the money owed to the plaintiff with interest. We await their bill in relation to the suit. |

## Notes to the Unaudited Annual Financial Statements

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**39. Contingencies (continued)**

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| 24 | Lourens Cornelius Nel// Lekwa Local Municipality | This is an urgent motion brought against the municipality by a consumer. The issue to be decided by the court is the alleged unlawful disconnection of services by the municipality. | Lourens Cornelius Nel Case No. 1653/2017 | Costs of the suit | I immediately consulted with the CFO and Deputy CFO soon after receiving the Notice of Motion. BTO mentioned that there are no prospects of success in defending the matter. I concluded that there is no need to appoint attorneys as there is no basis for defence. It is alarming how a section would advocate to cut and even reject efforts by the client to resolve matters all to come at the end and acknowledge that indeed the action was reckless. Legal division has on several occasion pointed out the approach to deal with kind of matters. BTO continues to disregard Council policy and cut services without giving notices. |

## Notes to the Unaudited Annual Financial Statements

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**39. Contingencies (continued)**

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| 25 | Lourens Cornelius Nel// Lekwa Local Municipality | The plaintiff is suing the municipality for damages suffered following the mu nicipality's illegal decision to disconnect electricity supply. Plaintiff lost business and attracted losses. | Lourens Cornelius Nel// Lekwa Local Municipality<br><br>Case Number 1017/2017 | R 19 200.00 plus interest and cost of suit | Following receipt of summons a memo accompanied by a letter requesting authority to negotiate was crafted to the office of the Municipal Manager. The memo authoring settlement has been signed. Corporate Department is still waiting for the letter giving authority to negotiate settlement agreement. This exercise has serious repercussions, if no deal is attained and the plaintiff continues to approach court for a relief we will be liable for costs.<br><br>The memorandum also focus on the fruitless and wasteful exercise by our BTO department. Several advisory memoranda drafted advising against the illegal disconnections despite the advice the municipality still carry out illegal disconnections.<br><br>The attorney, due to the delay in signing of approval to negotiate a settlement, went on to approach the court for a warrant of execution against property. The municipality will over and above the principal claim be liable for the |

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**39. Contingencies (continued)**

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| | | | | | sheriff's fees and additional court fees. |
| 26 | Eigenbau (Pty) Ltd. | The plaintiff is suing the municipality for interests emanating from a settled principal debt. The municipality honored the principal amount and omitted the interests as per the initial demand /summons. | Eigenbau (Pty) Ltd. Case No. 52156/2016 | R 1 700 000.00 subject to mathematical confirmation. [10.5% interest on R 707 571.04 from 12 November 2015] | The plaintiff filed a default Judgement, Enrolment notice to obtain an order against the municipality on the interest amount due.<br><br>The attorneys representing the plaintiff not amenable to negotiation. We await the final account for payment in this regard.<br><br>The municipality will not be defending the matter. |

## Notes to the Unaudited Annual Financial Statements

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**39. Contingencies (continued)**

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| 27 | Telkom/Lekwa Local Municipality | Telkom is suing the municipality for damages sustained to their underground cables in February 2012 | Telkom / Lekwa Local Municipality Case 451/2015 | R 121 401.84 plus interest and cost of the lawsuit | We instructed our attorneys of record to negotiate settlement on this matter. The municipality does not have any record/s to proof to aid in proving innocence in this action. In fact the witnesses consulted confirmed that municipal employees worked at the scene of the incident. It will be prudent to settle this matter and save on legal costs. The first offer tabled to Telkom (50 percent of the principal claim) was rejected). Our attorneys are continuing with negotiations.Our Attorneys wrote back with feedback that the company rejected the offer presented (60% of the claim ) A counter proposal ,payment of R72 841.10 in and final settlement ,was proposed.Instruction was given to the attorneys to accept the counter proposal. |

**39. Contingencies (continued)**

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| 28 | Henry Jacobus Kruger Jcobus//Lekwa Local Municipality | Mr Kruger, a consumer residing within the municipality's area of jurisdiction, intends bringing a lawsuit against the municipality for damages. It is alleged that the municipality, fire and rescue division, failed to assist during a raging fire that claimed respondent's belongings, house and furniture. The plaintiff alleges that municipal employees, after receiving a call out to his place, arrived with an unarmed fire and rescue vehicle (emptied water tank). | Not yet filed and issued by a competent court of law. | R 860 000.00, interests and cost of suit | The matter has not been officially issued out by the courts. Preliminary investigation done and the out warrants that we defend the matter. The municipality will defend the matter as soon as summons is received. No legal representative has been appointed. |
| 29 | J Kotze and others//Lekwa Local Municipality | The plaintiff gave notice in line with The Institution of Legal Proceedings Against Certain Organs of State act, Act No. 40 of 2002.Not yet known | Not yet filed and issued by a competent court of law. | Not yet known | The municipality is still investigating the circumstances surrounding the ordeal. The matter may be defended and or settled out of court. |
| 30 | A Du Plessis//Lekwa Local Municipality | The plaintiff intends suing the municipality for damages due to liter, supposedly belonging to and or in the care of the municipality, flowing through and or being blown into the respondent's farm and or yard. | Not yet filed and issued by a competent court of law. | Not yet known | Engagements underway on possible settlement. |

# Notes to the Unaudited Annual Financial Statements



**39. Contingencies (continued)**

| | | | | | |
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| 31 | Bula Mosebetsi CC//Lekwa Local Municipality | The plaintiff gave notice in line with The Institution of Legal Proceedings Against Certain Organs of State act, Act No. 40 of 2002.The lawsuit relates to services the respondent allegedly rendered and not paid by the municipality. | Not yet filed and issued by a competent court of law. | R 2 435 346.42, interests and cost of suit. | Engagements underway on possible resolution of the matter by the parties. |
| 32 | Ventura Stoetbeeste CC// Lekwa Local Municipality | The plaintiff gave notice in line with The Institution of Legal Proceedings Against Certain Organs of State act, Act No. 40 of 2002.The lawsuit is for damages allegedly suffered by the plaintiff when its agricultural equipment was electrocuted as a result of the alleged failure by the municipality to maintain electrical network lines. It is alleged that the electrical lines belonging to the municipality are hanging and or sagging way below the acceptable standard. | | Not yet known | The municipality is still investigating the circumstances surrounding the incident. The matter may be defended and or settled out of court. |

**40. Related parties**

**Remuneration of management**

**Mayoral committee members**

**2018**

| Name | Basic salary | Car Allowance | Cellphone Allowance | Contribution to medical and pension funds | Other benefits received | Total |
|---|---|---|---|---|---|---|
| Executive Mayor - Cllr. LBR Dlamini | 494,448 | 206,604 | 52,012 | 122,780 | 6,578 | 882,422 |
| Speaker - Cllr. HM Khota | 400,867 | 165,282 | 52,012 | 93,983 | 5,377 | 717,521 |
| Chief Whip - Cllr. ML Molaba | 526,682 | - | 46,332 | 92,491 | 4,889 | 670,394 |
| Member of Mayoral Committee - Corporate Services and Community services and safety - Cllr. VT Malinga | 393,193 | 154,953 | 46,332 | 69,729 | 5,007 | 669,214 |
| Member of Mayoral Committee - Technical Services and Development and Planning - Cllr. BP Mollo | 369,971 | 155,259 | 46,332 | 93,731 | 5,015 | 670,308 |
| | **2,185,161** | **682,098** | **243,020** | **472,714** | **26,866** | **3,609,859** |

**2017**

| Name | Basic salary | Car Allowance | Cellphone Allowance | Contribution to medical and pension funds | Other benefits received | Total |
|---|---|---|---|---|---|---|
| Executive Mayor - Cllr. LBR Dlamini | 462,680 | 190,484 | 24,468 | 113,852 | 5,865 | 797,349 |
| Speaker - Cllr. HM Khota | 375,113 | 152,929 | 24,468 | 87,153 | 4,753 | 644,416 |
| Chief Whip - Cllr. ML Molaba | 469,171 | - | 24,468 | 68,894 | 4,302 | 566,835 |
| Member of Mayoral Committee - Corporate Services and Community services and safety - Cllr. VT Malinga | 367,843 | 151,395 | 24,468 | 64,593 | 4,463 | 612,762 |
| Member of Mayoral Committee: Technical Services and Planning and Development - Cllr BP Mollo | 337,390 | 136,185 | 24,468 | 72,980 | 4,247 | 575,270 |
| | **2,012,197** | **630,993** | **122,340** | **407,472** | **23,630** | **3,196,632** |

**Councillors**

**2018**

| Name | Basic salary | Car Allowance | Cellphone Allowance | Contributions to Medical and Pension Funds | Other benefits received | Total |
|---|---|---|---|---|---|---|
| Cllr. AS Ngwenya | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. B Ndlebe | 170,110 | 67,500 | 46,124 | 30,375 | 2,429 | 316,538 |
| Cllr. SB Sibeko | 784 | 261 | 213 | - | 12 | 1,270 |

### 40. Related parties (continued)

| | | | | | | |
|---|---|---|---|---|---|---|
| Cllr. ENK Shabangu | 218,997 | 86,952 | 46,332 | 39,128 | 3,006 | 394,415 |
| Cllr. FE Mhlapo | 218,309 | 86,625 | 46,124 | 38,981 | 2,995 | 393,034 |
| Cllr. JB Mothopeng | 1,007 | 336 | 213 | - | 15 | 1,571 |
| Cllr. JJ VAN Der Wath | 130,600 | 51,954 | 35,602 | 23,134 | 1,878 | 243,168 |
| Cllr.JL Jansen Van Rensburg | 170,646 | 67,755 | 46,332 | 30,489 | 2,444 | 317,666 |
| Cllr. JR De Ville | 170,646 | 67,755 | 46,332 | 30,489 | 2,444 | 317,666 |
| Cllr. JW Ngubeni | 170,110 | 67,499 | 46,124 | 30,375 | - | 314,108 |
| Cllr. LP Selepe | 170,110 | 67,499 | 46,124 | 30,375 | 2,435 | 316,543 |
| Cllr. MB Mosikedi | 176,456 | 86,625 | 46,124 | 80,835 | 2,995 | 393,035 |
| Cllr. MG Makhanye | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. MM Sibanyoni | 170,110 | 67,499 | 46,124 | 30,375 | 2,435 | 316,543 |
| Cllr. MR Tshabalala | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. MS Mngomezulu | 170,110 | 67,499 | 46,124 | 30,375 | 2,435 | 316,543 |
| Cllr.N Tshabalala | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. NS Selepe | 170,110 | 67,500 | 46,124 | 30,375 | 2,435 | 316,544 |
| Cllr. PC Sikhakhane | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. PT Schnetler | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. S JQ Khumalo | 218,312 | 86,622 | 46,124 | 38,981 | 2,995 | 393,034 |
| Cllr. S MD Rakitla | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. S MS Khumalo | 199,391 | 86,952 | 46,332 | 58,734 | 3,006 | 394,415 |
| Cllr. S MY Khumalo | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. SS Gumede | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. SS Mosia | 1,007 | 336 | 213 | - | 15 | 1,571 |
| Cllr. TJ Kambule | 170,111 | 67,499 | 46,124 | 30,375 | 2,435 | 316,544 |
| Cllr. VM Mahlangu | 152,188 | 67,501 | 46,124 | 48,295 | 2,435 | 316,543 |
| Cllr. VM Sigasa | 12,564 | 3,209 | 3,737 | - | 189 | 19,699 |
| Cllr. BG Sekhonde | - | - | 213 | - | 2 | 215 |
| Cllr. F Sarang | 170,646 | 67,755 | 46,332 | - | - | 284,733 |
| Cllr. JP Masuku | 784 | 261 | 213 | - | 12 | 1,270 |
| Cllr. MM Mnisi | - | - | 213 | - | 2 | 215 |
| Cllr. NL Nkosi | 146,782 | 67,755 | 46,332 | 54,354 | 2,444 | 317,667 |
| Cllr. NZE Sitshoni | 1,007 | 336 | 213 | - | 15 | 1,571 |
| Cllr. PC Mahlaba | 170,110 | 67,499 | 46,124 | 30,375 | 2,435 | 316,543 |
| Cllr. PJ Dlamini | 170,110 | 67,499 | 46,124 | 30,375 | 2,435 | 316,543 |
| Cllr. RV Solontsi | 165,927 | 67,499 | 46,124 | 34,558 | 2,435 | 316,543 |
| Cllr. SJ Nkosi | 199,039 | - | 40,000 | 44,871 | 2,226 | 286,136 |
| Cllr. SM Ngwenya | 72,754 | 30,230 | 20,529 | 16,324 | 1,253 | 141,090 |
| Cllr. SM Zacarias | 218,997 | 86,952 | 46,332 | 39,128 | 3,006 | 394,415 |
| Cllr. TA Khanyile | 75,056 | 29,615 | 20,432 | 12,633 | 1,083 | 138,819 |
| Cllr. XM Tshabalala | 170,110 | 67,499 | 46,124 | 30,375 | 2,435 | 316,543 |
| | **4,430,056** | **1,720,627** | **1,139,892** | **894,684** | **58,924** | **8,244,183** |

**2017**

| Name | Basic salary | Cellphone Allowance | Cellphone Allowance | Contributions to Medical and Pension Funds | Other benefits received | Total |
|---|---|---|---|---|---|---|
| Cllr. JR De Ville | 151,238 | 59,309 | 24,468 | 26,689 | 1,987 | 263,691 |
| Cllr. PJ Dlamini | 135,287 | 52,772 | 21,771 | 23,866 | 2,042 | 235,738 |
| Cllr. SS Gumede | 17,443 | 6,841 | 2,822 | 2,224 | 257 | 29,587 |
| Cllr. JL Jansen van Rensburg | 151,238 | 59,309 | 24,468 | 26,689 | 1,987 | 263,691 |
| Cllr. TJ Kambule | 135,288 | 54,655 | 21,771 | 23,748 | 2,042 | 237,504 |
| Cllr. TA Khanyile | 151,238 | 63,120 | 24,468 | 26,808 | 1,987 | 267,621 |
| Cllr. JQ Khumalo | 171,091 | 66,822 | 21,771 | 30,069 | 2,454 | 292,207 |
| Cllr. MS Khumalo | 174,036 | 74,599 | 24,468 | 52,056 | 2,451 | 327,610 |
| Cllr. MY Khumalo | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. PC Mahlaba | 124,142 | 49,584 | 20,456 | 22,313 | 1,651 | 218,146 |

## Notes to the Unaudited Annual Financial Statements

Figures in Rand 2018 2017

### 40. Related parties (continued)

| | | | | | | |
|---|---|---|---|---|---|---|
| Cllr. VM Mahlangu | 129,404 | 52,772 | 21,771 | 29,603 | 2,041 | 235,591 |
| Cllr. MG Makhanye | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. JP Masuku | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. MM Mnisi | 32,968 | 14,196 | 2,822 | 11,997 | 535 | 62,518 |
| Cllr. MS Mgemezulu | 135,287 | 52,772 | 21,771 | 23,747 | 2,042 | 235,619 |
| Cllr. SS Mosia | 23,239 | 8,241 | 2,822 | 2,854 | 300 | 37,456 |
| Cllr. MB Mosikedi | 150,578 | 66,821 | 21,771 | 50,582 | 2,454 | 292,206 |
| Cllr. JB Mothopeng | 19,405 | 8,241 | 2,822 | 6,074 | 294 | 36,836 |
| Cllr. B Ndlebe | 135,287 | 52,772 | 22,439 | 23,747 | 2,048 | 236,293 |
| Cllr. JW Ngubeni | 135,287 | 52,772 | 21,771 | 23,747 | 373 | 233,950 |
| Cllr. AS Ngwenya | 14,278 | 6,841 | 2,822 | 8,555 | 269 | 32,765 |
| Cllr. FE Nhlapo | 171,091 | 66,821 | 21,646 | 30,069 | 2,453 | 292,080 |
| Cllr. NL Nkosi | 128,713 | 59,309 | 24,468 | 49,333 | 1,987 | 263,810 |
| Cllr. MD Rakitla | 15,159 | 6,841 | 2,822 | 6,732 | 259 | 31,813 |
| Cllr. F Sarang | 151,238 | 60,079 | 24,468 | 26,689 | 1,987 | 264,461 |
| Cllr. PT Schnetler | 11,926 | 6,841 | 2,822 | 9,966 | 259 | 31,814 |
| Cllr. LP Selepe | 135,287 | 52,772 | 21,771 | 23,747 | 2,041 | 235,618 |
| Cllr. NS Selepe | 135,260 | 56,068 | 21,771 | 23,747 | 2,041 | 238,887 |
| Cllr. BG Sekhonde | 34,120 | 14,196 | 2,822 | 9,694 | 474 | 61,306 |
| Cllr. ENK Shabangu | 187,042 | 73,358 | 24,468 | 33,011 | 2,399 | 320,278 |
| Cllr. MM Sibanyoni | 135,287 | 52,772 | 21,771 | 23,747 | 2,042 | 235,619 |
| Cllr. BS Sibeko | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. VM Sigasa | 135,287 | 53,580 | 21,771 | 23,747 | 2,042 | 236,427 |
| Cllr. PC Sikhakhane | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. NZE Sitshoni | 21,014 | 8,241 | 2,822 | 2,854 | 278 | 35,209 |
| Cllr. RV Solontsi | 135,287 | 52,772 | 21,771 | 23,747 | 2,042 | 235,619 |
| Cllr. MR Tshabalala | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. N Tshabalala | 19,668 | 6,841 | 2,822 | 2,224 | 259 | 31,814 |
| Cllr. XM Tshabalala | 135,287 | 52,772 | 21,771 | 23,866 | 2,042 | 235,738 |
| Cllr. JJ van der Wath | 151,238 | 59,309 | 24,468 | 26,869 | 1,987 | 263,871 |
| Cllr. SM Zacarias | 193,107 | 74,599 | 24,468 | 32,924 | 2,458 | 327,556 |
| | **4,000,753** | **1,600,656** | **612,928** | **801,678** | **55,818** | **7,071,833** |

### 41. Comparative figures

Presented below are those items contained in the statement of financial position, statement of financial performance that have been reclassified:
1. Current Trade receivables from non-exchange reclassified to non-current Trade receivables from non-exchange transactions.

**Statement of financial position**

**2017**

| | Note | As previously reported | Re-classification | After Reclassification |
|---|---|---|---|---|
| Receivables from exchange transactions | | 121,949,441 | 199 | 121,949,441 |
| VAT receivable | | 20,132,948 | 294,478 | 20,427,426 |
| Property, plant and equipment | | 1,163,112,079 | 1 | 1,163,112,080 |
| Payables from exchange transactions | | 694,138,017 | 36,395 | 694,174,412 |
| Consumer deposits | | 2,804,079 | 294,478 | 3,098,557 |
| Provisions | | 359,720 | (36,196) | 323,524 |
| | | **2,002,496,284** | **589,355** | **2,003,085,440** |

**Statement of finanical performance**

**2017**

| | Note | As previously reported | Re-classification | After Reclassification |
|---|---|---|---|---|
| Agency services | | 24,687,200 | 343,747 | 24,343,453 |
| Interest received - investment | | 37,707,918 | (687) | 37,708,605 |
| Other income | | 5,698,680 | (333,273) | 6,031,953 |
| Service charges | | 357,205,647 | 1 | 357,205,648 |
| Inventories reversal | | - | (481) | (481) |
| Government grants & subsidies | | 134,407,624 | (388,800) | 134,796,424 |
| Other Goverment grants | | 388,800 | 388,801 | - |
| Employee related costs | | (196,886,696) | (24,978,301) | (171,908,395) |
| Remuneration of councillors | | (10,591,720) | 1,658,389 | (10,591,720) |
| Debt Impairment | | (98,036,265) | (35,808) | (98,036,265) |
| Contracted services | | (35,502,208) | (89,628) | (35,502,208) |
| Inventories losses/write-downs | | 481 | 481 | - |
| Repairs and maintenance | | (39,299,094) | (39,299,094) | - |
| General Expenses | | (49,052,075) | 38,074,628 | (87,126,703) |
| Acturial gains losses | | 24,660,025 | 24,660,025 | - |
| **Surplus for the year** | | **155,388,317** | **-** | **156,920,311** |

### 42. Comparative figures

Certain comparative figures have been reclassified.

**42. Comparative figures (continued)**

Receivables from exchange transaction - mSCOA clssification correction.
VAT receivables - reclassification of VAT.
Payables from exchange transactions - mSCOA classification correction..
Vat payable - reclassification of VAT.
Provisions - mSCOA reclassification correction.

Agency fees - Reclassification due to mSCOA
Interest received - investments - reclassification due to mSCOA
Other income - reclassification due to mSCOA
Service charges - rounding
Inventories reversals - reclassification due to mSCOA
Government grants and subsidies - reclassification due to mSCOA
Other government grants - reclassification due to mSCOA
Employee related costs - reclassification due to mSCOA
remuneration of councillor's - reclassification due to mSCOA
Debt impairment - reclassification due to mSCOA
Contracted services - reclassification due to mSCOA
Inventories losses/write downs - reclassification due to mSCOA
Repairs and maintenance - reclassification due to mSCOA
General exepnses - reclassification due to mSCOA
Acturial gains/losses - reclassifictaion due to mSCOA

The effects of the reclassification are as follows:
Refer to note 41 above for effects of reclassifications.

### 43. Risk management

**Capital risk management**

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of cash and cash equivalents and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio. This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

**Financial risk management**

The municipality’s is expose to a variety of financial risks: market risk , fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality’s management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

| At 30 June 2018 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade and other payables | 928,296,945 | - | - | - |

| At 30 June 2017 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Trade and other payables | 694,174,413 | - | - | - |

## 43. Risk management (continued)

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2018 | 2017 |
|---|---|---|
| Receivables from non-exchange transactions | 15,163,668 | 29,857,606 |
| Recevables from exchange transactions | 105,671,651 | 121,949,441 |
| Cash and cash equivalents | 1,776,369 | 63,501 |

The maximum credit and interest risk exposure in respect of the relevant financial instruments amounts to as indicated above.

### Market risk

### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

## 44. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R (106,066,929) and that the municipality's total liabilities exceed its assets by R (106,066,929).

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 45. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 728,532,697 | 728,532,697 |
| Unauthorised expenditure for the year | 57,857,643 | - |
| | **786,390,340** | **728,532,697** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 46. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 132,901,507 | 90,298,665 |
| Interest on Arrear Eskom accounts | 57,841,075 | 40,773,455 |
| Interest on Arrear Telkom, AGSA & SARS accounts | 1,065,483 | 1,829,387 |
| | **191,808,065** | **132,901,507** |

### 47. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 228,172,697 | 146,964,717 |
| Other | 1,088,009 | 21,762,373 |
| Appointment of Financial Consultants | 5,380,000 | 11,853,743 |
| SCM process not followed | 1,143,525 | 3,002,356 |
| Tender process committee members not appointed | 29,871,066 | 40,142,369 |
| Irregular expenditure identified in the current year relating to prior year | - | 4,447,139 |
| Appointed service providers | 38,505,569 | - |
| | **304,160,866** | **228,172,697** |

**Analysis of expenditure awaiting condonation per age classification**

| | | |
|---|---|---|
| Current year | 75,988,169 | 81,207,980 |
| Prior years | 228,172,697 | 146,964,717 |
| | **304,160,866** | **228,172,697** |

**Details of irregular expenditure – current year**

| | Disciplinary steps taken/criminal proceedings | |
|---|---|---|
| SCM process not followed | No Disciplinary steps or investigations was done regarding SCM processes not followed. | 1,143,525 |

### 48. Additional disclosure in terms of Municipal Finance Management Act

**Material losses**

| | | |
|---|---|---|
| Electricity | 86,843,749 | 84,415,362 |
| Water | 62,564,444 | 64,791,744 |
| | **149,408,193** | **149,207,106** |

Electricity losses for the current year amounted to 32% i.e R 86,843,749 (2017: 34% i.e. R 84,415,362). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc., account for 9.9%. Attempts are currently being made to reduce these non-technical losses, data cleansing process will be initiated to address losses and the installation of smart meters.

Non revenue water i.e. non billed water amounted to 93% i.e. R62,564,444 (2016: 91% i.e. R64,791,744). 10% of these losses can be accounted for it in terms of the National Guidelines for non revenue water.4% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

**Audit fees**

| | | |
|---|---|---|
| Opening balance | 1,616,140 | 1,453,924 |
| Current year subscription / fee | 4,436,201 | 4,726,223 |
| Amount paid - current year | (2,296,892) | (4,564,007) |
| | **3,755,449** | **1,616,140** |

# Notes to the Unaudited Annual Financial Statements

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

**PAYE and UIF**

| | | |
|---|---|---|
| Opening balance | 16,144,987 | 3,446,212 |
| Current year subscription / fee | 34,247,945 | 28,211,385 |
| Amount paid - current year | (22,403,374) | (11,568,611) |
| Amount paid - previous years | - | (3,943,999) |
| | **27,989,558** | **16,144,987** |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | 118,130 | 4,247,389 |
| Current year subscription / fee | 52,025,659 | 47,128,496 |
| Amount paid - current year | (43,570,938) | (51,257,755) |
| | **8,572,851** | **118,130** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

| 30 June 2018 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale) | 32,609 | 1,646 | 34,255 |
| Cllr. V.T Malinga (Acc Holder:Malinga DJ ) | 1,940 | 3,745 | 5,685 |
| Cllr. P.J. Dlamini(Acc Holder:Dlamini E.V) | 16,634 | 1,402 | 18,036 |
| Cllr.T.J. Kambule (Acc Holder: T.J & M.Z.Kambule) | - | 1,293 | 1,293 |
| Cllr.S.M.Ngwenya (Acc Holder:Ngwenya DA) | - | 1,042 | 1,042 |
| Cllr.J.Q. Khumalo (Acc Holder: Khumalo & Radebe-Khumalo LM & QJ | - | 902 | 902 |
| Cllr.M.S. Khumalo (Acc Holder: Dlamini NM) | 15,084 | 1,484 | 16,568 |
| Cllr.P.C. Mahlaba (Acc Holder: Mahlaba CS) | 65,613 | 3,052 | 68,665 |
| Cllr.V.M. Mahlangu (Acc Holder:Mahlangu JB) | - | 1,915 | 1,915 |
| Cllr.F.E. Nhlapo (Acc Holder: Nhlapo FE) | - | 1,289 | 1,289 |
| Cllr.M.S. Mngomezulu (Acc Holder: Mngomezulu MS) | - | 1,391 | 1,391 |
| Cllr. M.B. Mosikedi(Acc Holder:Mosikedi MB) | - | 386 | 386 |
| Cllr.S.J. Nkosi(Acc Holder:Nkosi SN) | 18,270 | 2,302 | 20,572 |
| Cllr.L.P. Selepe (Acc Holder:Selepe FE) | - | 3,083 | 3,083 |
| Cllr.N.S. Selepe (Acc Holder:Selepe NA) | 119,748 | 5,785 | 125,533 |
| Cllr.E.N.K. Shabangu (Acc Holder:Mzizi CK Pensioner) | 23,197 | 2,451 | 25,648 |
| Cllr.M.M. Sibanyoni (Dlamini SS & Motaung NA) | 210 | 4 | 214 |
| Cllr.R.V. Solontsi | 6,179 | 1,632 | 7,811 |
| Cllr.X.M. Tshabalala | - | 1,534 | 1,534 |
| Cllr.S.M. Zacarias(Acc Holder:Hlatshwayo SM) | - | 481 | 481 |
| | **299,484** | **36,819** | **336,303** |

| 30 June 2017 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Cllr. L.B.R. Dhlamini (Acc. Holder: S.Z. Dhlamini) | 1,756 | - | 1,756 |
| Cllr. J.J. Van der Wath (Acc. Holder: J.J. Van der Wath) | 1,433 | - | 1,433 |
| Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko) | 1,500 | 415 | 1,915 |
| Cllr. F. Sarang (Acc. Holder: R.A. Sarang) | 1,003 | - | 1,003 |
| Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale) | 1,105 | 28,122 | 29,227 |
| Cllr. A. Khanyile (Acc. Holder: IL Khanyile) | 2,217 | 5,930 | 8,147 |
| Cllr. E.N.K. Shabangu (Acc. Holder: CK MZIZI ) | 1,664 | 17,366 | 19,030 |
| Cllr. J.R. de Ville (Acc. Holder: J.R de Ville ) | 15 | 3,231 | 3,246 |
| Cllr V.T Malinga (Acc. Holder: D.J Malinga) | 1,584 | - | 1,584 |
| Cllr B.P Mollo (Acc. Holder: B.P Mollo) | 1,015 | - | 1,015 |
| Cllr N.L Nkosi (Acc.Holder: P.E Nkosi) | 2,310 | 36,915 | 39,225 |
| Cllr P.C Mahlaba (Acc.Holder: C.S Mahlaba) | 2,322 | 57,272 | 59,594 |
| Cllr M.S Mngomezulu (Acc. Holder: M.S Mngomezulu) | 1,616 | 5,380 | 6,996 |
| Cllr F.E Selepe (Acc. Holder: F.E Selepe) | 688 | - | 688 |
| Cllr F.E Nhlapo (Acc. Holder: F.E Mhlapo) | 497 | - | 497 |
| Cllr M.B Mosikedi (Acc. Holder: M.B Mosikedi) | 1,194 | 6,917 | 8,111 |
| Cllr T.J Kambule (Acc. Holder: T.J Kambule) | 1,578 | - | 1,578 |
| Cllr L.M Rabede-Khumalo & Q.J Khumalo (Acc. Holder: L.M Rabede-Khumalo & Q.J Khumalo) | 1,312 | 9,938 | 11,250 |
| Cllr V.M Mahlangu (Acc. Holder: J.B Mahlangu) | 1,568 | 4,520 | 6,088 |
| Cllr J.L Jansen Van Rensburg (Acc. Holder: J.G.E & W.J Van Wyk) | 126 | - | 126 |
| Cllr M.S Khumalo (Acc. Holder: N.M Dlamini) | 1,305 | 14,054 | 15,359 |
| Cllr J.W Ngubeni (Acc. Holder: S.J Zwana) | 1,282 | 593 | 1,875 |

## Notes to the Unaudited Annual Financial Statements

| Figures in Rand | | 2018 | 2017 |
|---|---|---|---|

### 48. Additional disclosure in terms of Municipal Finance Management Act (continued)

| | | | |
|---|---|---|---|
| Cllr L.P Selepe (Acc. Holder: F.E Selepe) | 688 | - | 688 |
| Cllr N.S Selepe (Acc. Holder: N.A Selepe) | 4,141 | 103,989 | 108,130 |
| Cllr M.M Sibanyoni (Acc. Holder: M.A Mazibuko) | 3 | 197 | 200 |
| Cllr V.M Sigasa (Acc. Holder: M.M Mahlasela Estate) | 3,366 | 16,475 | 19,841 |
| Cllr R.V Solontsi (Acc. Holder: Local Municipality of Lekwa) | 1,000 | 2,034 | 3,034 |
| Cllr P.J Dlamini (Acc. Holder: EV Dlamini) | 932 | 12,979 | 13,911 |
| Cllr S.M Zacarias (Acc. Holder: S.M Hlatshwayo) | 231 | - | 231 |
| | **39,451** | **326,327** | **365,778** |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

### 49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the unaudited annual financial statements.

| Order Number | Date | Supplier | Amount | Description | Reason |
|---|---|---|---|---|---|
| | 7/19/2018 | THE ASSESSMENT TOOLBOX | 36,120.00 | COMPETENCY ASSESSMENT | A SERVICE PROVIDER THAT CONDUCTS AN INDEPENDENT ASSESSMENT ON SHORTLISTED CANDIDATES FOR THE MUNICIPAL MANAGER POSITION AS SOME CANDIDATES ARE INTERNAL,THE NEED TO AVOID CONFLICT OF INTEREST IS OF UTMOST NECESSITY IN THE MANAGEMENT PROCESS |
| 280484 | 20/04/2018 | GP HLONGWANE | 305 760.00 | 2 X HIRE OF HONEY SUCKERS ON DRY RATE FOR 30 DAYS | OVERFLOW OF ALL MAIN SEWER LINES IN ROOIKOPPEN. AS THIS IS A MAJOR HEALTH AND SAFETY RISK THE HONEY SUCKERS ARE REQUIRED IMMEDIATELY. DUE TO THE URGENCY OF THE ITEM FROM ADVERTISING FOR 7 DAYS ON THE WEBSITE AND NOTICE BOARD IS REQUIRED. |

**49. Deviation from supply chain management regulations (continued)**

| | | | | | |
|---|---|---|---|---|---|
| 280489 | 6/11/2018 | GP HLONGWANE | 305 760.00 | 2 X HIRE OF HONEY SUCKERS ON DRY RATE FOR 30 DAYS | OVERFLOW OF ALL MAIN SEWER LINES IN ROOIKOPPEN. THE SEWER SPILLAGES FROM OVERFLOWING MAINHOLES IN THE STREETS IS OVERFLOWING INTO RDP HOUSES AS A RESULT RESIDENTS AND YOUNG CHILDREN ARE EXPOSED TO THIS HEALTH HAZARD. EXTENSION OF THE PREVIOUS MONTHS |
| 280480 | 23-02-2018 | EIGENBAU | 190,125.00 | REPAIR OF PUMP | REPAIR OF PUMP |
| | | GP HLONGWANE | 305,760.00 | 2 X HIRE OF HONEY SUCKERS ON DRY RATE FOR 30 DAYS | 2 X HIRE OF HONEY SUCKERS ON DRY RATE FOR 30 DAYS |

# Lekwa Local Municipality
# Appendix B
June 2018

## Analysis of property, plant and equipment as at 30 June 2018

| | Cost | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carr |
| **Land and buildings** | | | | | | | | | | | | | | |
| Land (Separate for AFS purposes) | 141,194,150 | - | - | - | - | **-** | **141,194,150** | - | - | - | - | - | **-** | |
| Buildings (Separate for AFS purposes) | 5,879,355 | 3,571,796 | - | - | - | **-** | **9,451,151** | (2,543,420) | - | - | (293,967) | - | **(2,837,387)** | |
| | **147,073,505** | **3,571,796** | **-** | **-** | **-** | **-** | **150,645,301** | **(2,543,420)** | **-** | **-** | **(293,967)** | **-** | **(2,837,387)** | **1** |
| **Infrastructure** | | | | | | | | | | | | | | |
| Roads, Pavements & Bridges | 1,393,385,880 | - | - | - | - | **-** | **1,393,385,880** | (851,315,713) | - | - | (55,340,175) | - | **(906,655,888)** | |
| Electricity network | 317,253,046 | - | - | - | - | **-** | **317,253,046** | (178,627,700) | - | - | (7,609,529) | - | **(186,237,229)** | |
| Water network | 162,057,010 | - | - | - | - | **-** | **162,057,010** | (91,989,190) | - | - | (3,928,191) | - | **(95,917,381)** | |
| Waste Water network | 242,542,862 | - | - | - | - | **-** | **242,542,862** | (109,453,851) | - | - | (5,219,101) | - | **(114,672,952)** | |
| | **2,115,238,798** | **-** | **-** | **-** | **-** | **-** | **2,115,238,798** | **(1,231,386,454)** | **-** | **-** | **(72,096,996)** | **-** | **(1,303,483,450)** | **8** |
| **Community Assets** | | | | | | | | | | | | | | |
| Other | 33,529,755 | - | - | - | - | **-** | **33,529,755** | (2,110,956) | - | - | (951,145) | - | **(3,062,101)** | |
| | **33,529,755** | **-** | **-** | **-** | **-** | **-** | **33,529,755** | **(2,110,956)** | **-** | **-** | **(951,145)** | **-** | **(3,062,101)** | |

# Lekwa Local Municipality
# Appendix B
June 2018

## Analysis of property, plant and equipment as at 30 June 2018

| | Cost | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying Ran |
| **Heritage assets** | | | | | | | | | | | | | | |
| **Specialised vehicles** | | | | | | | | | | | | | | |
| **Other assets** | | | | | | | | | | | | | | |
| General vehicles | 54,235,282 | - | - | - | - | **-** | **54,235,282** | (51,195,111) | - | - | (1,447,157) | - | **(52,642,268)** | |
| Plant & equipment | 515,996 | - | - | - | - | **-** | **515,996** | (482,546) | - | - | (12,059) | - | **(494,605)** | |
| Computer Equipment | 4,767,914 | 300,462 | - | - | - | **-** | **5,068,376** | (3,101,292) | - | - | (487,232) | - | **(3,588,524)** | |
| Furniture & Fittings | 9,945,789 | 210,579 | - | - | - | **-** | **10,156,368** | (9,310,811) | - | - | (202,929) | - | **(9,513,740)** | |
| Workshop equipment | 2,533,373 | 476,170 | - | - | - | **-** | **3,009,543** | (2,207,610) | - | - | (109,701) | - | **(2,317,311)** | |
| Work in progress | 97,513,898 | 29,871,068 | - | - | - | **-** | **127,384,966** | - | - | - | - | - | **-** | |
| Other | 449,798 | - | - | - | - | **-** | **449,798** | (353,828) | - | - | (34,890) | - | **(388,718)** | |
| | **169,962,050** | **30,858,279** | **-** | **-** | **-** | **-** | **200,820,329** | **(66,651,198)** | **-** | **-** | **(2,293,968)** | **-** | **(68,945,166)** | **1** |

# Lekwa Local Municipality
# Appendix B
June 2018

## Analysis of property, plant and equipment as at 30 June 2018

| | Cost | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying Ran |
| **Total property plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 147,073,505 | 3,571,796 | - | - | - | **-** | **150,645,301** | (2,543,420) | - | - | (293,967) | - | **(2,837,387)** | |
| Infrastructure | 2,115,238,798 | - | - | - | - | **-** | **2,115,238,798** | (1,231,386,454) | - | - | (72,096,996) | - | **(1,303,483,450)** | |
| Community Assets | 33,529,755 | - | - | - | - | **-** | **33,529,755** | (2,110,956) | - | - | (951,145) | - | **(3,062,101)** | |
| Other assets | 169,962,050 | 30,858,279 | - | - | - | **-** | **200,820,329** | (66,651,198) | - | - | (2,293,968) | - | **(68,945,166)** | |
| | **2,465,804,108** | **34,430,075** | **-** | **-** | **-** | **-** | **2,500,234,183** | **(1,302,692,028)** | **-** | **-** | **(75,636,076)** | **-** | **(1,378,328,104)** | **1,1** |
| **Agricultural/Biological assets** | | | | | | | | | | | | | | |
| **Intangible assets** | | | | | | | | | | | | | | |
| **Investment properties** | | | | | | | | | | | | | | |
| Investment property | 4,242,477 | - | - | - | - | **-** | **4,242,477** | (2,333,362) | - | - | (84,850) | - | **(2,418,212)** | |
| | **4,242,477** | **-** | **-** | **-** | **-** | **-** | **4,242,477** | **(2,333,362)** | **-** | **-** | **(84,850)** | **-** | **(2,418,212)** | |
| **Total** | | | | | | | | | | | | | | |
| Land and buildings | 147,073,505 | 3,571,796 | - | - | - | **-** | **150,645,301** | (2,543,420) | - | - | (293,967) | - | **(2,837,387)** | |
| Infrastructure | 2,115,238,798 | - | - | - | - | **-** | **2,115,238,798** | (1,231,386,454) | - | - | (72,096,996) | - | **(1,303,483,450)** | |
| Community Assets | 33,529,755 | - | - | - | - | **-** | **33,529,755** | (2,110,956) | - | - | (951,145) | - | **(3,062,101)** | |
| Other assets | 169,962,050 | 30,858,279 | - | - | - | **-** | **200,820,329** | (66,651,198) | - | - | (2,293,968) | - | **(68,945,166)** | |
| Investment properties | 4,242,477 | - | - | - | - | **-** | **4,242,477** | (2,333,362) | - | - | (84,850) | - | **(2,418,212)** | |
| | **2,470,046,585** | **34,430,075** | **-** | **-** | **-** | **-** | **2,504,476,660** | **(1,305,025,390)** | **-** | **-** | **(75,720,926)** | **-** | **(1,380,746,316)** | **1,1** |

# Lekwa Local Municipality
# Appendix B

## Analysis of property, plant and equipment as at 30 June 2017

| | Cost | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Land and buildings** | | | | | | | | | | | | | | |
| Land (Separate for AFS purposes) | 211,574,150 | - | - | (70,380,000) | - | - | **141,194,150** | - | - | - | - | - | - | 141,194,150 |
| Buildings (Separate for AFS purposes) | 5,879,355 | - | - | - | - | - | **5,879,355** | (2,249,452) | - | - | (293,968) | - | **(2,543,420)** | 3,335,935 |
| | **217,453,505** | **-** | **-** | **(70,380,000)** | **-** | **-** | **147,073,505** | **(2,249,452)** | **-** | **-** | **(293,968)** | **-** | **(2,543,420)** | **144,530,085** |
| **Infrastructure** | | | | | | | | | | | | | | |
| Roads, Pavements & Bridges | 1,393,385,880 | - | - | - | - | - | **393,385,880** | (768,561,002) | - | - | (59,614,645) | (23,140,066) | **851,315,713)** | 542,070,167 |
| Electricity network | 317,253,046 | - | - | - | - | - | **317,253,046** | (171,018,171) | - | - | (7,609,529) | - | **178,627,700)** | 138,625,346 |
| Water network | 162,057,010 | - | - | - | - | - | **162,057,010** | (88,060,971) | - | - | (3,928,219) | - | **(91,989,190)** | 70,067,820 |
| Wastewater network | 242,542,862 | - | - | - | - | - | **242,542,862** | (104,135,245) | - | - | (5,318,606) | - | **109,453,851)** | 133,089,011 |
| | **115,238,798** | **-** | **-** | **-** | **-** | **-** | **115,238,798** | **131,775,389)** | **-** | **-** | **(76,470,999)** | **(23,140,066)** | **231,386,454)** | **883,852,344** |
| **Community Assets** | | | | | | | | | | | | | | |
| Other | 23,774,662 | - | - | 9,755,093 | - | - | **33,529,755** | (1,335,671) | - | - | (775,285) | - | **(2,110,956)** | 31,418,799 |
| | **23,774,662** | **-** | **-** | **9,755,093** | **-** | **-** | **33,529,755** | **(1,335,671)** | **-** | **-** | **(775,285)** | **-** | **(2,110,956)** | **31,418,799** |

## Analysis of property, plant and equipment as at 30 June 2017

| | Cost | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Heritage assets** | | | | | | | | | | | | | | |
| **Specialised vehicles** | | | | | | | | | | | | | | |
| Specialised vehicles | 47,117,292 | 173,500 | (194,162) | - | - | **-** | **47,096,630** | (41,475,713) | - | - | (2,660,678) | - | **(44,136,391)** | 2,960,239 |
| Other equipment | (2,088,111) | - | - | - | - | **-** | **(2,088,111)** | (2,088,111) | - | - | - | - | **(2,088,111)** | (4,176,222) |
| | **45,029,181** | **173,500** | **(194,162)** | **-** | **-** | **-** | **45,008,519** | **(43,563,824)** | **-** | **-** | **(2,660,678)** | **-** | **(46,224,502)** | **(1,215,983)** |
| **Other assets** | | | | | | | | | | | | | | |
| General vehicles | 29,558,047 | - | - | - | - | **-** | **29,558,047** | (29,089,977) | - | - | (388,138) | - | **(29,478,115)** | 79,932 |
| Plant & equipment | 249,431 | - | - | - | - | **-** | **249,431** | (241,753) | - | - | (6,099) | - | **(247,852)** | 1,579 |
| Computer Equipment | 4,007,514 | 1,292,709 | (16,251) | - | - | **-** | **5,283,972** | (3,288,190) | - | - | (329,160) | - | **(3,617,350)** | 1,666,622 |
| Furniture & Fittings | 6,976,724 | - | (118,646) | - | - | **-** | **6,858,078** | (6,449,765) | - | - | (345,190) | - | **(6,794,955)** | 63,123 |
| Office Equipment | 2,066,218 | 402,467 | (350) | - | - | **-** | **2,468,335** | (1,854,796) | - | - | (89,537) | - | **(1,944,333)** | 524,002 |
| Workshop equipment | 2,270,123 | 263,250 | - | - | - | **-** | **2,533,373** | (2,136,023) | - | - | (71,587) | - | **(2,207,610)** | 325,763 |
| Labortory equipment | 425,365 | - | - | - | - | **-** | **425,365** | (383,014) | - | - | (10,480) | - | **(393,494)** | 31,871 |
| Other land | 265,129 | 48,980 | - | - | - | **-** | **314,109** | (265,129) | - | - | (1,127) | - | **(266,256)** | 47,853 |
| Work in progress | 72,783,666 | 38,107,485 | - | (13,377,256) | - | **-** | **97,513,895** | - | - | - | - | - | **-** | 97,513,895 |
| Other | 522,951 | - | - | - | - | **-** | **522,951** | (392,092) | - | - | (34,890) | - | **(426,982)** | 95,969 |
| | **119,125,168** | **40,114,891** | **(135,247)** | **(13,377,256)** | **-** | **-** | **145,727,556** | **(44,100,739)** | **-** | **-** | **(1,276,208)** | **-** | **(45,376,947)** | **100,350,609** |

## Analysis of property, plant and equipment as at 30 June 2017

| | Cost | | | | | | | Accumulated depreciation | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Revaluations Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Total property plant and equipment** | | | | | | | | | | | | | | |
| Land and buildings | 217,453,505 | - | - | (70,380,000) | - | - | **147,073,505** | (2,249,452) | - | - | (293,968) | - | **(2,543,420)** | 144,530,085 |
| Infrastructure | 2,115,238,798 | - | - | - | - | - | **115,238,798** | 1,131,775,389) | - | - | (76,470,999) | (23,140,066) | **231,386,454)** | 883,852,344 |
| Community Assets | 23,774,662 | - | - | 9,755,093 | - | - | **33,529,755** | (1,335,671) | - | - | (775,285) | - | **(2,110,956)** | 31,418,799 |
| Specialised vehicles | 45,029,181 | 173,500 | (194,162) | - | - | - | **45,008,519** | (43,563,824) | - | - | (2,660,678) | - | **(46,224,502)** | (1,215,983) |
| Other assets | 119,125,168 | 40,114,891 | (135,247) | (13,377,256) | - | - | **145,727,556** | (44,100,739) | - | - | (1,276,208) | - | **(45,376,947)** | 100,350,609 |
| | **520,621,314** | **40,288,391** | **(329,409)** | **(74,002,163)** | **-** | **-** | **486,578,133** | **223,025,075)** | **-** | **-** | **(81,477,138)** | **(23,140,066)** | **327,642,279)** | **158,935,854** |
| **Agricultural/Biological assets** | | | | | | | | | | | | | | |
| **Intangible assets** | | | | | | | | | | | | | | |
| **Investment properties** | | | | | | | | | | | | | | |
| **Total** | | | | | | | | | | | | | | |
| Land and buildings | 217,453,505 | - | - | (70,380,000) | - | - | **147,073,505** | (2,249,452) | - | - | (293,968) | - | **(2,543,420)** | 144,530,085 |
| Infrastructure | 2,115,238,798 | - | - | - | - | - | **115,238,798** | 1,131,775,389) | - | - | (76,470,999) | (23,140,066) | **231,386,454)** | 883,852,344 |
| Community Assets | 23,774,662 | - | - | 9,755,093 | - | - | **33,529,755** | (1,335,671) | - | - | (775,285) | - | **(2,110,956)** | 31,418,799 |
| Specialised vehicles | 45,029,181 | 173,500 | (194,162) | - | - | - | **45,008,519** | (43,563,824) | - | - | (2,660,678) | - | **(46,224,502)** | (1,215,983) |
| Other assets | 119,125,168 | 40,114,891 | (135,247) | (13,377,256) | - | - | **145,727,556** | (44,100,739) | - | - | (1,276,208) | - | **(45,376,947)** | 100,350,609 |
| | **520,621,314** | **40,288,391** | **(329,409)** | **(74,002,163)** | **-** | **-** | **486,578,133** | **223,025,075)** | **-** | **-** | **(81,477,138)** | **(23,140,066)** | **327,642,279)** | **158,935,854** |

**Lekwa Local Municipality**
**Appendix F**
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**
June 2018

| Name of Grants | Name of organ of state or municipal entity | Quarterly Receipts | | | | | Quarterly Expenditure | | | | | Grants and Subsidies delayed / withhe | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equitable Share | | 39,145,000 | 31,316,000 | 23,487,000 | - | - | 39,145,000 | 31,316,000 | 23,487,000 | - | - | - | - | - | - |
| Financial Management Grant | | 1,700,000 | - | - | - | - | 126,330 | 209,737 | 1,372,109 | 153,886 | - | - | - | - | - |
| Minicipal Infrastructure Grant | | 8,838,000 | 9,688,000 | 767,000 | - | - | 2,183,368 | 531,969 | 5,808,128 | 10,789,112 | - | - | - | - | - |
| Water Services Infrastructure Grant | | 9,000,000 | 15,000,000 | 6,000,000 | - | - | 3,648,000 | - | - | 4,280,834 | - | - | - | - | - |
| Intergrated National Electrification Programme (Municipal) | | - | 8,000,000 | - | - | - | - | 3,094,754 | 2,872,308 | 1,802,990 | - | - | - | - | - |
| Intergrated Expanded Public Works programme | | 254,000 | - | 759,000 | - | - | - | - | - | 1,013,000 | - | - | - | - | - |
| Intergrated Grant for Municipalities ) | | | | | | | | | | | | | | | |
| | | 58,937,000 | 64,004,000 | 31,013,000 | - | - | 45,102,698 | 35,152,460 | 33,539,545 | 18,039,822 | - | - | - | - | - |

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.